

Exterran Corp  
Form 10-Q  
August 07, 2018

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

Form 10-Q  
(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2018

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 No. 001-36875

EXTERRAN CORPORATION

(Exact name of registrant as specified in its charter)

|   |   |
|---|---|
| Delaware  | 47-3282259                              |
| (State or Other Jurisdiction of<br>Incorporation or Organization) | (I.R.S. Employer<br>Identification No.) |

|  |            |
|--|------------|
| 4444 Brittmoore Road                                 |            |
| Houston, Texas                                       | 77041      |
| (Address of principal executive offices)             | (Zip Code) |
| (281) 836-7000                                       |            |
| (Registrant's telephone number, including area code) |            |

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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"/> | <input type="checkbox"/> |
|---|--|--------------------------|

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Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

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

Number of shares of the common stock of the registrant outstanding as of July 31, 2018: 36,125,135 shares.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

EXTERRAN CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except par value and share amounts)  
 (unaudited)

|   | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| <b>ASSETS</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$ 18,192        | \$ 49,145            |
| Restricted cash   | 546              | 546                  |
| Accounts receivable, net of allowance of \$5,829 and \$5,388, respectively  | 261,914          | 266,052              |
| Inventory, net (Note 4)   | 161,208          | 107,909              |
| Costs and estimated earnings in excess of billings on uncompleted contracts | —                | 40,695               |
| Contract assets (Note 2)  | 72,374           | —                    |
| Other current assets  | 30,104           | 38,707               |
| Current assets held for sale (Note 6)                                       | —                | 15,761               |
| Current assets associated with discontinued operations (Note 3)             | 15,029           | 23,751               |
| Total current assets  | 559,367          | 542,566              |
| Property, plant and equipment, net (Note 5)                                 | 838,055          | 822,279              |
| Deferred income taxes   | 12,477           | 10,550               |
| Intangible and other assets, net  | 100,958          | 76,980               |
| Long-term assets held for sale (Note 6)                                     | —                | 4,732                |
| Long-term assets associated with discontinued operations (Note 3)           | 2,577            | 3,700                |
| Total assets  | \$ 1,513,434     | \$ 1,460,807         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                 |                  |                      |
| Current liabilities:  |                  |                      |
| Accounts payable, trade   | \$ 190,613       | \$ 148,744           |
| Accrued liabilities   | 112,512          | 114,336              |
| Deferred revenue  | —                | 23,902               |
| Billings on uncompleted contracts in excess of costs and estimated earnings | —                | 89,565               |
| Contract liabilities (Note 2)   | 105,298          | —                    |
| Current liabilities associated with discontinued operations (Note 3)        | 20,705           | 31,971               |
| Total current liabilities   | 429,128          | 408,518              |
| Long-term debt (Note 7)   | 401,119          | 368,472              |
| Deferred income taxes   | 6,206            | 9,746                |
| Long-term deferred revenue  | —                | 92,485               |
| Long-term contract liabilities (Note 2)                                     | 85,062           | —                    |
| Other long-term liabilities   | 39,073           | 20,272               |
| Long-term liabilities associated with discontinued operations (Note 3)      | 5,895            | 6,528                |
| Total liabilities   | 966,483          | 906,021              |
| Commitments and contingencies (Note 15)                                     |                  |                      |

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|  |             |             |
|--|-------------|-------------|
| Stockholders' equity:  |             |             |
| Preferred stock, \$0.01 par value per share; 50,000,000 shares authorized; zero issued   | —           | —           |
| Common stock, \$0.01 par value per share; 250,000,000 shares authorized; 36,740,016 and 36,193,930 shares issued, respectively | 367         | 362         |
| Additional paid-in capital   | 746,780     | 739,164     |
| Accumulated deficit  | (228,119 )  | (223,510 )  |
| Treasury stock — 618,919 and 453,178 common shares, at cost, respectively  | (10,418 )   | (6,937 )    |
| Accumulated other comprehensive income   | 38,341      | 45,707      |
| Total stockholders' equity   | 546,951     | 554,786     |
| Total liabilities and stockholders' equity   | \$1,513,434 | \$1,460,807 |

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS(In thousands, except per share amounts)  
(unaudited)

|   | Three Months<br>Ended June 30, |          | Six Months Ended<br>June 30, |           |
|---|--------------------------------|----------|------------------------------|-----------|
|   | 2018                           | 2017     | 2018                         | 2017      |
| Revenues (Note 2):  |                                |          |                              |           |
| Contract operations   | \$91,487                       | \$95,341 | \$187,980                    | \$187,386 |
| Aftermarket services  | 32,267                         | 24,244   | 58,638                       | 46,768    |
| Product sales   | 219,717                        | 198,116  | 447,236                      | 328,972   |
|   | 343,471                        | 317,701  | 693,854                      | 563,126   |
| Costs and expenses:   |                                |          |                              |           |
| Cost of sales (excluding depreciation and amortization expense):                          |                                |          |                              |           |
| Contract operations   | 32,372                         | 34,691   | 67,757                       | 65,489    |
| Aftermarket services  | 23,706                         | 17,278   | 42,603                       | 33,890    |
| Product sales   | 191,762                        | 178,025  | 392,098                      | 297,562   |
| Selling, general and administrative   | 44,382                         | 44,564   | 88,624                       | 88,975    |
| Depreciation and amortization   | 30,184                         | 26,348   | 61,213                       | 51,100    |
| Long-lived asset impairment (Note 9)  | —                              | —        | 1,804                        | —         |
| Restatement related charges (recoveries), net (Note 10)                                   | (597 )                         | (1,158 ) | 24                           | 1,014     |
| Restructuring and other charges (Note 11)   | 1,422                          | 310      | 1,422                        | 2,618     |
| Interest expense  | 6,883                          | 12,382   | 14,102                       | 19,469    |
| Other (income) expense, net   | 5,204                          | 2,731    | 6,624                        | 912       |
|   | 335,318                        | 315,171  | 676,271                      | 561,029   |
| Income before income taxes  | 8,153                          | 2,530    | 17,583                       | 2,097     |
| Provision for (benefit from) income taxes (Note 12)                                       | 9,622                          | (640 )   | 15,114                       | 11,250    |
| Income (loss) from continuing operations  | (1,469 )                       | 3,170    | 2,469                        | (9,153 )  |
| Income from discontinued operations, net of tax (Note 3)                                  | 1,544                          | 374      | 2,943                        | 33,018    |
| Net income  | \$75                           | \$3,544  | \$5,412                      | \$23,865  |
| Basic net income per common share (Note 14):  |                                |          |                              |           |
| Income (loss) from continuing operations per common share                                 | \$(0.04 )                      | \$0.09   | \$0.07                       | \$(0.26 ) |
| Income from discontinued operations per common share                                      | 0.04                           | 0.01     | 0.08                         | 0.94      |
| Net income per common share   | \$—                            | \$0.10   | \$0.15                       | \$0.68    |
| Diluted net income per common share (Note 14):  |                                |          |                              |           |
| Income (loss) from continuing operations per common share                                 | \$(0.04 )                      | \$0.09   | \$0.07                       | \$(0.26 ) |
| Income from discontinued operations per common share                                      | 0.04                           | 0.01     | 0.08                         | 0.94      |
| Net income per common share   | \$—                            | \$0.10   | \$0.15                       | \$0.68    |
| Weighted average common shares outstanding used in net income per common share (Note 14): |                                |          |                              |           |
| Basic   | 35,455                         | 35,018   | 35,376                       | 34,913    |
| Diluted   | 35,455                         | 35,094   | 35,446                       | 34,913    |

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



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EXTERRAN CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (In thousands)  
 (unaudited)

|   | Three Months   |          | Six Months Ended |          |
|---|----------------|----------|------------------|----------|
|   | Ended June 30, |          | June 30,         |          |
|   | 2018           | 2017     | 2018             | 2017     |
| Net income                              | \$75           | \$3,544  | \$5,412          | \$23,865 |
| Other comprehensive loss:               |                |          |                  |          |
| Foreign currency translation adjustment | (8,123 )       | (2,669 ) | (7,366 )         | (1,026 ) |
| Comprehensive income (loss)             | \$(8,048)      | \$875    | \$(1,954)        | \$22,839 |

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



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CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(unaudited)

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income | Total      |
|---|-----------------|----------------------------------|------------------------|-------------------|---|------------|
| Balance, January 1, 2018  | \$ 362          | \$ 739,164                       | \$(223,510 )           | \$(6,937 )        | \$ 45,707                                       | \$ 554,786 |
| Cumulative-effect adjustment from adoption<br>of ASC Topic 606 (Note 1) |                 |                                  | (10,021 )              |                   |   | (10,021 )  |
| Net income  |                 |                                  | 5,412                  |                   |   | 5,412      |
| Options exercised   |                 | 563                              |                        |                   |   | 563        |
| Foreign currency translation adjustment                                 |                 |                                  |                        |                   | (7,366 )  | (7,366 )   |
| Treasury stock purchased  |                 |                                  |                        | (3,481 )          |   | (3,481 )   |
| Stock-based compensation, net of forfeitures                            | 5               | 7,053                            |                        |                   |   | 7,058      |
| Balance, June 30, 2018  | \$ 367          | \$ 746,780                       | \$(228,119 )           | \$(10,418)        | \$ 38,341                                       | \$ 546,951 |

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

|   | Six Months Ended June 30,<br>2018 |   | 2017      |   |
|---|-----------------------------------|---|-----------|---|
| Cash flows from operating activities:   |                                   |   |           |   |
| Net income  | \$ 5,412                          |   | \$ 23,865 |   |
| Adjustments to reconcile net income to cash provided by operating activities: |                                   |   |           |   |
| Depreciation and amortization   | 61,213                            |   | 51,100    |   |
| Long-lived asset impairment   | 1,804                             |   | —         |   |
| Amortization of deferred financing costs                                      | 1,342                             |   | 3,375     |   |
| Income from discontinued operations, net of tax                               | (2,943                            | ) | (33,018   | ) |
| Provision for doubtful accounts   | 606                               |   | 953       |   |
| Gain on sale of property, plant and equipment                                 | (348                              | ) | (1,245    | ) |
| (Gain) loss on remeasurement of intercompany balances                         | 4,081                             |   | (26       | ) |
| Loss on sale of business  | 1,714                             |   | 111       |   |
| Stock-based compensation expense  | 7,058                             |   | 8,561     |   |
| Deferred income tax benefit   | (3,366                            | ) | (7,081    | ) |
| Changes in assets and liabilities:  |                                   |   |           |   |
| Accounts receivable and notes   | (3,875                            | ) | (40,893   | ) |
| Inventory   | (70,126                           | ) | 6,001     |   |
| Costs and estimated earnings versus billings on uncompleted contracts         | —                                 |   | 31,841    |   |
| Contract assets   | (21,582                           | ) | —         |   |
| Other current assets  | 9,325                             |   | (5,901    | ) |
|   | 39,587                            |   | 23,313    |   |

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|   |          |   |            |
|---|----------|---|------------|
| Accounts payable and other liabilities  |          |   |            |
| Deferred revenue  | —        |   | (5,338 )   |
| Contract liabilities  | (3,746   | ) | —          |
| Other   | 1,984    |   | (14 )      |
| Net cash provided by continuing operations                                    | 28,140   |   | 55,604     |
| Net cash provided by discontinued operations                                  | 881      |   | 2,498      |
| Net cash provided by operating activities                                     | 29,021   |   | 58,102     |
| Cash flows from investing activities:   |          |   |            |
| Capital expenditures  | (94,234  | ) | (44,216 )  |
| Proceeds from sale of property, plant and equipment                           | 2,372    |   | 6,427      |
| Proceeds from sale of business  | 5,000    |   | 894        |
| Net cash used in continuing operations  | (86,862  | ) | (36,895 )  |
| Net cash provided by discontinued operations                                  | 66       |   | 19,164     |
| Net cash used in investing activities   | (86,796  | ) | (17,731 )  |
| Cash flows from financing activities:   |          |   |            |
| Proceeds from borrowings of debt  | 255,000  |   | 488,000    |
| Repayments of debt  | (222,758 | ) | (463,877 ) |
| Cash transfer to Archrock, Inc. (Note 15)                                     | —        |   | (44,720 )  |
| Payment for debt issuance costs   | (47      | ) | (7,606 )   |
| Proceeds from stock options exercised   | 563      |   | 684        |
| Purchases of treasury stock   | (3,481   | ) | (3,124 )   |
| Net cash provided by (used in) financing activities                           | 29,277   |   | (30,643 )  |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (2,455   | ) | (42 )      |
| Net increase (decrease) in cash, cash   | (30,953  | ) | 9,686      |

|   |           |           |
|---|-----------|-----------|
| equivalents and<br>restricted cash                                      |           |           |
| Cash, cash equivalents<br>and restricted cash at<br>beginning of period | 49,691    | 36,349    |
| Cash, cash equivalents<br>and restricted cash at<br>end of period       | \$ 18,738 | \$ 46,035 |

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

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EXTERRAN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Description of Business and Basis of Presentation

Description of Business

Exterran Corporation (together with its subsidiaries, “Exterran Corporation,” “our,” “we” or “us”), a Delaware corporation formed in March 2015, is a global systems and process company offering solutions in the oil, gas, water and power markets. We are a leader in natural gas processing and treatment and compression products and services, providing critical midstream infrastructure solutions to customers throughout the world. Outside the United States of America (“U.S.”), we are a leading provider of full-service natural gas contract compression, and a supplier of aftermarket parts and services. We provide these products and services to a global customer base consisting of companies engaged in all aspects of the oil and natural gas industry, including large integrated oil and natural gas companies, national oil and natural gas companies, independent oil and natural gas producers and oil and natural gas processors, gatherers and pipeline operators. We operate in three primary business lines: contract operations, aftermarket services and product sales.

On November 3, 2015, Archrock, Inc. (named Exterran Holdings, Inc. prior to November 3, 2015) (“Archrock”) completed the spin-off (the “Spin-off”) of its international contract operations, international aftermarket services and global fabrication businesses into an independent, publicly traded company named Exterran Corporation.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Exterran Corporation included herein have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP are not required in these interim financial statements and have been condensed or omitted. Management believes that the information furnished includes all adjustments of a normal recurring nature that are necessary to fairly present our consolidated financial position, results of operations and cash flows for the periods indicated. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated and combined financial statements presented in our Annual Report on Form 10-K for the year ended December 31, 2017. That report contains a comprehensive summary of our accounting policies. The interim results reported herein are not necessarily indicative of results for a full year. Certain reclassifications resulting from the adoption of ASU 2016-18, Restricted Cash have been made to the statement of cash flows for the prior year period to conform to the current year presentation.

We refer to the condensed consolidated financial statements collectively as “financial statements,” and individually as “balance sheets,” “statements of operations,” “statements of comprehensive income,” “statements of stockholders’ equity” and “statements of cash flows” herein.

Recent Accounting Pronouncements

We consider the applicability and impact of all Accounting Standard Updates (“ASUs”). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our financial

statements.

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Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The update outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes the most current revenue recognition guidance, including industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. The update also requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. On January 1, 2018, we adopted this update using the modified retrospective approach to all contracts that were not completed as of January 1, 2018. As a result of this adoption, we recorded a net increase to the accumulated deficit of \$10.0 million as of January 1, 2018 and an increase of \$3.5 million in revenue for the six months ended June 30, 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. See Note 2 for the required disclosures related to the impact of adopting this standard and a discussion of our updated policies related to revenue recognition.

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As a result of applying the modified retrospective method to adopt the new revenue guidance, the following adjustments were made to the balance sheet as of January 1, 2018 (in thousands):

|   | Impact of Changes in Accounting Policies |             |                 |
|---|--|-------------|-----------------|
|   | December 31, 2017                        | Adjustments | January 1, 2018 |
| <b>ASSETS</b>   |  |             |                 |
| Current assets:   |  |             |                 |
| Cash and cash equivalents   | \$49,145                                 | \$ —        | \$49,145        |
| Restricted cash   | 546                                      | —           | 546             |
| Accounts receivable, net of allowance                                       | 266,052                                  | (4,801 )    | 261,251         |
| Inventory, net  | 107,909                                  | (124 )      | 107,785         |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 40,695                                   | (40,695 )   | —               |
| Contract assets   | —  | 50,824      | 50,824          |
| Other current assets  | 38,707                                   | (179 )      | 38,528          |
| Current assets held for sale  | 15,761                                   | —           | 15,761          |
| Current assets associated with discontinued operations                      | 23,751                                   | —           | 23,751          |
| Total current assets  | 542,566                                  | 5,025       | 547,591         |
| Property, plant and equipment, net  | 822,279                                  | (2,029 )    | 820,250         |
| Deferred income taxes   | 10,550                                   | 404         | 10,954          |
| Intangible and other assets, net  | 76,980                                   | 18,273      | 95,253          |
| Long-term assets held for sale  | 4,732                                    | —           | 4,732           |
| Long-term assets associated with discontinued operations                    | 3,700                                    | —           | 3,700           |
| Total assets  | \$1,460,807                              | \$ 21,673   | \$1,482,480     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                 |  |             |                 |
| Current liabilities:  |  |             |                 |
| Accounts payable, trade   | \$148,744                                | \$ —        | \$148,744       |
| Accrued liabilities   | 114,336                                  | 16,044      | 130,380         |
| Deferred revenue  | 23,902                                   | (23,902 )   | —               |
| Billings on uncompleted contracts in excess of costs and estimated earnings | 89,565                                   | (89,565 )   | —               |
| Contract liabilities  | —  | 112,244     | 112,244         |
| Current liabilities associated with discontinued operations                 | 31,971                                   | —           | 31,971          |
| Total current liabilities   | 408,518                                  | 14,821      | 423,339         |
| Long-term debt  | 368,472                                  | —           | 368,472         |
| Deferred income taxes   | 9,746                                    | (1,908 )    | 7,838           |
| Long-term deferred revenue  | 92,485                                   | (92,485 )   | —               |
| Long-term contract liabilities  | —  | 89,004      | 89,004          |
| Other long-term liabilities   | 20,272                                   | 22,262      | 42,534          |
| Long-term liabilities associated with discontinued operations               | 6,528                                    | —           | 6,528           |
| Total liabilities   | 906,021                                  | 31,694      | 937,715         |
| Stockholders' equity:   |  |             |                 |
| Preferred stock   | —  | —           | —               |
| Common stock  | 362                                      | —           | 362             |
| Additional paid-in capital  | 739,164                                  | —           | 739,164         |



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|  |             |           |             |
|--|-------------|-----------|-------------|
| Accumulated deficit                        | (223,510 )  | (10,021 ) | (233,531 )  |
| Treasury stock                             | (6,937 )    | —         | (6,937 )    |
| Accumulated other comprehensive income     | 45,707      | —         | 45,707      |
| Total stockholders' equity                 | 554,786     | (10,021 ) | 544,765     |
| Total liabilities and stockholders' equity | \$1,460,807 | \$ 21,673 | \$1,482,480 |

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In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The update addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. On January 1, 2018, we adopted this update. The adoption of this update did not have an impact on our statements of cash flows.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The update requires a reporting entity to recognize the tax expense from intra-entity asset transfers of assets other than inventory in the selling entity's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buying entity's jurisdiction would also be recognized at the time of the transfer. On January 1, 2018, we adopted this update using a modified retrospective approach. The impact of this adoption was immaterial to our financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. On January 1, 2018, we adopted this update retrospectively. As a result of this adoption, \$0.7 million of restricted cash has been included in the cash and cash equivalent balances in the statement of cash flows for the prior year period. At December 31, 2017, the \$49.7 million of cash, cash equivalents and restricted cash on our statement of cash flows is composed of \$49.1 million of cash and cash equivalents and \$0.5 million of restricted cash. At June 30, 2018, the \$18.7 million of cash, cash equivalents and restricted cash on our statement of cash flows is composed of \$18.2 million of cash and cash equivalents and \$0.5 million of restricted cash. The impact of this adoption was immaterial to our financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718). This update provides guidance that clarifies that changes to the terms or conditions of a share-based payment award should be accounted for as modifications. On January 1, 2018, we adopted this update using a prospective approach. The impact of this adoption was immaterial to our financial statements.

### Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The update requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of operations. The update also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. Lessor accounting will be similar to the current model except for changes made to align with certain changes to the lessee model and the new revenue recognition standard. Existing sale-leaseback guidance will be replaced with a new model applicable to both lessees and lessors. This update is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective approach beginning with the earliest period presented. In preparation for our adoption of the new standard, we are analyzing and updating data previously collected to evaluate the impact the adoption will have on our financial statements. Additionally, we are assessing our use of practical expedients and the systems required to capture the increased reporting and disclosure requirements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326). The update changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans, and requires entities to use a new forward-looking expected loss model that will result in the earlier recognition of allowance for losses. This update is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. Adoption will require a modified retrospective approach beginning with the earliest period presented. We are currently evaluating the potential impact of the update

on our financial statements.

Note 2 - Revenue

On January 1, 2018, we adopted Topic 606 applying the modified retrospective method to all contracts that were not completed as of the date of adoption. For contracts that were modified before the effective date, we reflected the aggregate effect of all modifications when identifying performance obligations and allocating transaction price in accordance with a Topic 606 practical expedient. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported under the accounting standards in effect for the prior period. We recorded a net increase to accumulated deficit of \$10.0 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606. Revenues for the three and six months ended June 30, 2018 increased by \$2.6 million and \$3.5 million, respectively, as a result of adopting Topic 606.

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## Disaggregation of Revenue

The following tables present disaggregated revenue by products and services lines and by geographical regions for the three and six months ended June 30, 2018 (in thousands):

|   | Three<br>Months<br>Ended<br>June 30,<br>2018 | Six<br>Months<br>Ended<br>June 30,<br>2018 |
|---|--|--|
| Revenue by Products and Services                  |  |  |
| Contract Operations Segment:                      |  |  |
| Contract operations services <sup>(1)</sup>       | \$91,487                                     | \$187,980                                  |
| Aftermarket Services Segment:                     |  |  |
| Operation and maintenance services <sup>(1)</sup> | \$14,722                                     | \$28,597                                   |
| Part sales <sup>(2)</sup>                         | 11,077                                       | 20,210                                     |
| Other services <sup>(1)</sup>                     | 6,468  | 9,831                                      |
| Total aftermarket services                        | \$32,267                                     | \$58,638                                   |
| Product Sales Segment:                            |  |  |
| Compression equipment <sup>(1)</sup>              | \$129,436                                    | \$260,995                                  |
| Processing and treating equipment <sup>(1)</sup>  | 79,407                                       | 165,522                                    |
| Production equipment <sup>(2)</sup>               | 6,782  | 14,780                                     |
| Other product sales <sup>(1) (2)</sup>            | 4,092  | 5,939                                      |
| Total product sales revenues                      | \$219,717                                    | \$447,236                                  |
| Total revenues                                    | \$343,471                                    | \$693,854                                  |

<sup>(1)</sup> Revenue recognized over time.

<sup>(2)</sup> Revenue recognized at a point in time.

|                                 | Three<br>Months<br>Ended<br>June 30,<br>2018 | Six<br>Months<br>Ended<br>June 30,<br>2018 |
|---------------------------------|--|--|
| Revenue by Geographical Regions |  |  |
| North America                   | \$222,357                                    | \$454,205                                  |
| Latin America                   | 72,638                                       | 140,589                                    |
| Middle East and Africa          | 31,353                                       | 57,478                                     |
| Asia Pacific                    | 17,123                                       | 41,582                                     |
| Total revenues                  | \$343,471                                    | \$693,854                                  |

The North America region is primarily comprised of our operations in Mexico and the U.S. The Latin America region is primarily comprised of our operations in Argentina, Bolivia and Brazil. The Middle East and Africa region is primarily comprised of our operations in Bahrain, Iraq, Oman, Nigeria and the United Arab Emirates. The Asia Pacific region is primarily comprised of our operations in China, Indonesia, Thailand and Singapore.

Revenue is recognized when control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. The following is a

description of principal activities from which we generate revenue.

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### Contract Operations Segment

In our contract operations segment, we provide compression or processing and treating services through operating our natural gas compression equipment and crude oil and natural gas production and process equipment on behalf of our customers. Our services include the provision of personnel, equipment, tools, materials and supplies to meet our customers' natural gas compression or oil and natural gas production and processing service needs. Activities we may perform in meeting our customers' needs include engineering, designing, sourcing, constructing, installing, operating, servicing, repairing, maintaining and demobilizing equipment owned by us necessary to provide these services. Contract operation services represent a series of distinct monthly services that are substantially the same, with the same pattern of transfer to the customer. Because our customers benefit equally throughout the service period and our efforts in providing contract operation services are incurred relatively evenly over the period of performance, revenue is recognized over time using a time based measure as we provide our services to the customer. Our contracts generally require customers to pay a monthly service fee, which may contain variable consideration such as production or volume based fees, guaranteed run rates, performance bonuses or penalties, liquidated damages and standby fees. Variable considerations included in our contracts are typically resolved on a monthly basis, and as such, variable considerations included in our contracts are generally allocated to each distinct month in the series within the contract. In addition, our contracts may include billings prior to or after the performance of our contract operation services that are recognized as revenue on a straight-line basis over the contract term as we perform our services and the customer receives and consumes the benefits of the services we provide.

We generally enter into contracts with our contract operations customers with initial terms ranging between three to five years, and in some cases, in excess of 10 years. In many instances, we are able to renew those contracts prior to the expiration of the initial term and in other instances, we may sell the underlying assets to our customers pursuant to purchase options or negotiated sale. As of June 30, 2018, we had contract operation services contracts with unsatisfied performance obligations (commonly referred to as backlog) extending through the year 2028. The total aggregate transaction price allocated to the unsatisfied performance obligations as of June 30, 2018 was approximately \$1.4 billion, of which approximately \$139 million is expected to be recognized during the remainder of 2018 and approximately \$260 million is expected to be recognized in 2019. Our contracts are subject to cancellation or modification at the election of the customer; however, due to the level of capital deployed by our customers on underlying projects, we have not been materially adversely affected by contract cancellations or modifications in the past.

### Aftermarket Services Segment

In our aftermarket services business, we sell parts and components and provide operations, maintenance, overhaul, upgrade, commissioning and reconfiguration services to customers who own their own compression, production, processing, treating and related equipment. Our services range from routine maintenance services and parts sales to the full operation and maintenance of customer-owned equipment.

Operations and maintenance services: Operation and maintenance services include personnel to run the equipment and monitor the outputs of the equipment, along with performing preventative or scheduled maintenance on customer-owned equipment. Operation and maintenance services represent a series of distinct monthly services that are substantially the same, with the same pattern of transfer to the customer. Because our customers benefit equally throughout the service period and our efforts in providing operation and maintenance services are incurred relatively evenly over the period of performance, revenue is recognized over time using a time based measure as we provide our services to the customer. Our contracts generally require customers to pay a monthly service fee, which may contain variable consideration such as production or volume based fees and performance bonuses or penalties. Variable considerations included in our contracts are typically resolved on a monthly basis, and as such, variable considerations

included in our contracts are generally allocated to each distinct month in the series within the contract. We generally enter into contracts with our operation and maintenance customers with initial terms ranging between two to four years, and in some cases, in excess of six years. In many instances, we are able to renew those contracts prior to the expiration of the initial term.

Parts sales: We offer our customers a full range of parts needed for the maintenance, repair and overhaul of oil and natural gas equipment, including natural gas compressors, industrial engines and production and processing equipment. We recognize revenue for parts sales at a point in time following the transfer of control of such parts to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contract. Our contracts require customers to pay a fixed fee upon shipment or delivery of the parts.

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Other services: Within our aftermarket services segment we also provide a wide variety of other services such as overhaul, commissioning, upgrade and reconfiguration services on customer-owned equipment. Overhaul services provided to customers are intended to return the major components to a “like new” condition without significantly modifying the applications for which the units were designed. Commissioning services that we provide to our customers generally include supervision and the introduction of fluids or gases into the systems to test vibrations, pressures and temperatures to ensure that customer-owned equipment is operating properly and is ready for start-up. Upgrade and reconfiguration services modify the operating parameters of customer-owned equipment such that the equipment can be used in applications for which it previously was not suited. Generally, the wide array of other services provided within the aftermarket services segment are expected to be completed within a six month period. Individually these services are generally distinct within the context of the contract and are not highly interdependent or interrelated with other service offerings. We recognize revenue from these services over time based on the proportion of labor hours expended to the total labor hours expected to complete the contract performance obligation. Our contracts generally require customers to pay a service fee that is either fixed or on a time and materials basis, which may include progress billings.

Our aftermarket services contracts are subject to cancellation or modification at the election of the customer.

## Product Sales Segment

In our product sales segment, we design, engineer, manufacture, install and sell natural gas compression packages as well as equipment used in the production, treating and processing of crude oil and natural gas primarily to major and independent oil and natural gas producers as well as national oil and natural gas companies in the countries where we operate.

Compression equipment: We design, engineer, manufacture and sell skid-mounted natural gas compression equipment to meet standard or unique customer specifications. We recognize revenue from the sale of compression equipment over time based on the proportion of labor hours expended to the total labor hours expected to complete the contract performance obligation. Compression equipment manufactured for our customers are specifically designed and engineered to our customers’ specification and do not have an alternative use to us. Our contracts include a fixed fee and require our customers to make progress payments based on completion of contractual milestones during the life cycle of the manufacturing process. Our contracts provide us with an enforceable right to payment for work performed to date. Components of variable considerations exist in certain of our contracts and may include unpriced change orders, liquidated damages and performance bonuses or penalties. Typically, we expect the manufacturing of our compressor equipment to be completed within a three to 12 month period.

Processing and treating equipment: Processing and treating equipment sold to our customers consists of custom-engineered processing and treating plants, such as refrigeration, amine, cryogenic and natural gas processing plants. The manufacturing of processing and treating equipment generally represents a single performance obligation within the context of the contract. We recognize revenue from the sale of processing and treating equipment over time based on the proportion of labor hours expended to the total labor hours expected to complete the contract performance obligation. Processing and treating equipment manufactured for our customers are specifically designed and engineered to our customers’ specification and do not have an alternative use to us. Our contracts include a fixed fee and require our customers to make progress payments based on our completion of contractual milestones during the life cycle of the manufacturing process. Our contracts provide us with an enforceable right to payment for work performed to date. Components of variable considerations exist in certain of our contracts and may include unpriced change orders, liquidated damages and performance bonuses or penalties. Typically, we expect the manufacturing of our processing and treating equipment to be completed within a six to 24 month period.



Production equipment: In June 2018, we completed the sale of our North America production equipment assets (“PEQ assets”), which included \$12.0 million in unsatisfied performance obligations. See Note 6 for further details on the sale of our PEQ assets. We previously manufactured standard production equipment used for processing wellhead production from onshore or shallow-water offshore platform production. The manufacturing of production equipment generally represented a single performance obligation within the context of the contract. We recognized revenue from the sale of production equipment at a point in time following the transfer of control of the equipment to the customer, which typically occurred upon completion of the manufactured equipment, depending on the terms of the underlying contract. Our contracts generally required customers to pay a fixed fee upon completion.

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Other product sales: Within our product sales segment we also provide for the sale of standard and custom water treatment equipment and floating production storage and offloading equipment and supervisor site work services. We recognize revenue from the sale of standard water treatment equipment at a point in time following the transfer of control of such equipment to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contract. We recognize revenue from the sale of custom water treatment equipment over time based on the proportion of costs expended to the total costs expected to complete the contract performance obligation. We recognize revenue from the sale of custom water treatment equipment and floating production storage and offloading equipment and supervisor site work services over time based on the proportion of labor costs expended to the total labor costs expected to complete the contract performance obligation.

Product sales contracts that include engineering, design, project management, procurement, construction and installation services necessary to incorporate our products into production, processing and compression facilities are treated as a single performance obligation due to the services that significantly integrate each piece of equipment into the combined output contracted by the customer.

We provide assurance-type warranties on certain equipment in our product sales contracts. These warranties generally do not constitute a separate performance obligation. Product warranty reserves are established in the same period that revenue from the sale of the related products is recognized, or in the period that a specific issue arises as to the functionality of a product. The determination of such reserves requires that we make estimates of expected costs to repair or to replace the products under warranty. The amounts of the reserves are based on established terms and our best estimate of the amounts necessary to settle future and existing claims on product sales as of the balance sheet date. If actual repair and replacement costs differ significantly from estimates, adjustments to recognize additional cost of sales may be required in future periods.

As of June 30, 2018, the total aggregate transaction price allocated to the unsatisfied performance obligations for product sales contracts was approximately \$635 million, of which approximately \$379 million is expected to be recognized during the remainder of 2018 and approximately \$256 million is expected to be recognized in 2019. Our contracts are subject to cancellation or modification at the election of the customer; however, due to our enforceable right to payment for work performed, we have not been materially adversely affected by contract cancellations or modifications in the past.

### Significant Estimates

The recognition of revenue over time based on the proportion of labor hours expended to the total labor hours expected to complete depends largely on our ability to make reasonable dependable estimates related to the extent of progress toward completion of the contract, contract revenues and contract costs. Recognized revenues and profits are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known using the cumulative catch-up method. Due to the nature of some of our contracts, developing the estimates of costs often requires significant judgment. To calculate the proportion of labor hours expended to the total labor hours expected to complete the contract performance obligation, management uses significant judgment to estimate the number of total hours and profit expected for each project.

### Variable Consideration

The nature of our contracts gives rise to several types of variable consideration. We estimate variable consideration at the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty

associated with the variable consideration is resolved. Additionally, we include in our contract estimates additional revenue for unapproved change orders or claims against customers when we believe we have an enforceable right to the modification or claim, the amount can be estimated reliably and its realization is probable. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and historical, current and forecasted information that is reasonably available to us.

#### Contracts with Multiple Performance Obligations

Some of our contracts have multiple performance obligations. For instance, some of our product sales contracts include commissioning services or the supply of spare parts. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service.

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## Contract Assets and Contract Liabilities

The following table provides information about accounts receivables, net, contract assets and contract liabilities from contracts with customers (in thousands):

|   | As of<br>June 30,<br>2018 | As of<br>January<br>1, 2018 |
|---|---------------------------|-----------------------------|
| Accounts receivables, net                 | \$261,914                 | \$261,251                   |
| Contract assets and contract liabilities: |                           |                             |
| Current contract assets                   | 72,374                    | 50,824                      |
| Long-term contract assets                 | 10,766                    | 11,835                      |
| Current contract liabilities              | 105,298                   | 112,244                     |
| Long-term contract liabilities            | 85,062                    | 89,004                      |

Accounts receivables are recorded when the right to consideration becomes unconditional. Our contract assets include amounts related to revenue that has been recognized in advance of billing the customer. The contract assets in our balance sheets include costs in excess of billings and unbilled receivables. When we receive consideration, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of the contract, we record a contract liability. Our contract liabilities include payments received in advance of performance under the contract. The contract liabilities in our balance sheets include billings in excess of costs and deferred revenue. Billings in excess of costs primarily relate to billings that have not been recognized as revenue on product sales jobs where the transfer of control to the customer occurs over time. Deferred revenue is primarily comprised of upfront billings on contract operations jobs and billings related to product sales jobs that have not begun where revenue is recognized over time. Upfront payments received from customers on contract operations jobs are generally deferred and amortized over the contract term as we perform our services and the customer receives and consumes the benefits of the services we provide. Contract assets and liabilities are reported in our balance sheets on a net contract asset or liability position on a contract-by-contract basis at the end of each reporting period.

During the six months ended June 30, 2018, revenue recognized from contract operations services included \$10.4 million of revenue deferred in previous periods. Revenue recognized during the six months ended June 30, 2018 from product sales performance obligations partially satisfied in previous periods was \$360.5 million, of which \$78.4 million was included in billings in excess of costs at the beginning of the period. Additionally, during the six months ended June 30, 2018, we recognized \$4.1 million in revenue from contract operations services performance obligations that were satisfied in a previous period. The increase in our contract assets during the six months ended June 30, 2018 was primarily driven by progression of product sales projects and the timing of milestone billings.

## Costs to Fulfill a Contract

We capitalize costs incurred to fulfill our revenue contracts that (i) relate directly to the contract (ii) are expected to generate resources that will be used to satisfy the performance obligation under the contract and (iii) are expected to be recovered through revenue generated under the contract. As of June 30, 2018, we had capitalized fulfillment costs of \$8.2 million related to contractual obligations incurred at the completion of the commissioning phase and prior to providing services on contracts within our contract operations segment. Contract fulfillment costs are expensed to cost of sales as we satisfy our performance obligations by transferring contract operation services to the customer. During the three and six months ended June 30, 2018, we recorded amortization expense for capitalized fulfillment costs of \$0.5 million and \$1.1 million, respectively. Capitalized fulfillment costs are included in intangible and other assets, net, in the balance sheets.

Costs to Obtain a Contract

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain commissions paid to internal sales representatives and third party agents meet the requirements to be capitalized. The amount capitalized for incremental costs to obtain contracts as of June 30, 2018 was \$6.6 million. The judgments made in determining the amount of costs incurred include whether the commissions are in fact incremental and would not have occurred absent the customer contract. Capitalized costs to obtain a contract are included in intangible and other assets, net, in the balance sheets and are amortized to selling, general and administrative expense over the expected period of benefit in a manner that is consistent with the transfer of the related goods or services to which the asset relates. During the three and six months ended June 30, 2018, we recorded amortization expense for capitalized costs to obtain a contract of \$0.4 million and \$0.8 million, respectively.

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## Practical Expedients and Exemptions

We have elected the following practical expedients:

We do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised product or service to a customer and when the customer pays for that product or service will be one year or less.

We treat shipping and handling activities that occur after the transfer of control as costs to fulfill a contract rather than a separate performance obligation.

We record taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by us from our customers on a net basis, and thus, such taxes are excluded from the measurement of a performance obligation's transaction price.

We expense sales commissions as incurred when we expect that the amortization period of such costs will be one year or less.

## Impact of New Revenue Recognition Guidance on Financial Statement Line Items

The following tables summarize the impacts of the adoption of the new revenue recognition guidance on our balance sheet as of June 30, 2018 and statements of operations and cash flows for the applicable periods during the three and six months ended June 30, 2018 (in thousands):

|   | June 30, 2018  |             | Balances<br>Without<br>Adoption<br>of Topic<br>606 |
|---|----------------|-------------|--|
|   | As<br>Reported | Adjustments |  |
| <b>ASSETS</b>                               |                |             |  |
| Accounts receivable, net of allowance       | \$261,914      | \$ 221      | \$262,135  |
| Inventory, net                              | 161,208        | 1,183       | 162,391  |
| Contract assets                             | 72,374         | (17,311)    | 55,063   |
| Other current assets                        | 30,104         | 9,160       | 39,264   |
| Property, plant and equipment, net          | 838,055        | 1,942       | 839,997  |
| Deferred income taxes                       | 12,477         | (1,571)     | 10,906   |
| Intangible and other assets, net            | 100,958        | (17,592)    | 83,366   |
| Total assets                                | 1,513,434      | (23,968)    | 1,489,466  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                |             |  |
| Accrued liabilities                         | \$112,512      | \$ (15,554) | \$96,958   |
| Contract liabilities                        | 105,298        | 1,625       | 106,923  |
| Deferred income taxes                       | 6,206          | (3,764)     | 2,442  |
| Long-term contract liabilities              | 85,062         | 3,476       | 88,538   |
| Other long-term liabilities                 | 39,073         | (18,076)    | 20,997   |
| Total liabilities                           | 966,483        | (32,293)    | 934,190  |
| Accumulated deficit                         | (228,119)      | 8,325       | (219,794)  |
| Total stockholders' equity                  | 546,951        | 8,325       | 555,276  |
| Total liabilities and stockholders' equity  | 1,513,434      | (23,968)    | 1,489,466  |

The adoption of the new revenue recognition guidance resulted in increases in total assets and liabilities of \$24.0 million and \$32.3 million, respectively. This was primarily due to capitalized contract fulfillment and obtainment costs and related liabilities recorded associated with contracts within our contract operations segment.

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|   | Three Months Ended June 30,<br>2018 |             |  | Six Months Ended June 30, 2018 |             |  |
|---|-------------------------------------|-------------|--|--------------------------------|-------------|--|
|   | As<br>Reported                      | Adjustments | Balances<br>Without<br>Adoption<br>of Topic<br>606 | As<br>Reported                 | Adjustments | Balances<br>Without<br>Adoption<br>of Topic<br>606 |
| <b>Revenues:</b>  |                                     |             |  |                                |             |  |
| Contract operations   | \$91,487                            | \$ (690 )   | \$ 90,797  | \$187,980                      | \$ (1,459 ) | \$ 186,521   |
| Aftermarket services  | 32,267                              | (1,909 )    | 30,358   | 58,638                         | (2,079 )    | 56,559   |
| <b>Cost of sales (excluding depreciation and<br/>amortization expense):</b> |                                     |             |  |                                |             |  |
| Contract operations   | 32,372                              | (501 )      | 31,871   | 67,757                         | (1,101 )    | 66,656   |
| Aftermarket services  | 23,706                              | (1,363 )    | 22,343   | 42,603                         | (1,406 )    | 41,197   |
| Selling, general and administrative   | 44,382                              | 6,627       | 51,009   | 88,624                         | 6,627       | 95,251   |
| Depreciation and amortization   | 30,184                              | (659 )      | 29,525   | 61,213                         | (1,368 )    | 59,845   |
| Income before income taxes  | 8,153                               | (6,703 )    | 1,450  | 17,583                         | (6,290 )    | 11,293   |
| Provision for income taxes  | 9,622                               | (5,334 )    | 4,288  | 15,114                         | (4,594 )    | 10,520   |
| Income (loss) from continuing operations                                    | (1,469 )                            | (1,369 )    | (2,838 )   | 2,469                          | (1,696 )    | 773  |
| Net income (loss)   | 75                                  | (1,369 )    | (1,294 )   | 5,412                          | (1,696 )    | 3,716  |
| <br>  |                                     |             |  |                                |             |  |
| Basic net income (loss) per common share                                    | \$—                                 | \$ (0.04 )  | \$ (0.04 )   | \$0.15                         | \$ (0.05 )  | \$0.10   |
| Diluted net income (loss) per common share                                  | —                                   | (0.04 )     | (0.04 )  | 0.15                           | (0.05 )     | 0.10   |

The adoption of the new revenue recognition guidance resulted in an increase in net income of \$1.4 million and \$1.7 million for the three and six months ended June 30, 2018, respectively. Most notably, costs to obtain a contract during the three and six months ended June 30, 2018 would have resulted in an increase in selling, general and administrative expense under previous accounting standards.

|  | Six Months Ended June 30, 2018 |             |  |
|--|--------------------------------|-------------|--|
|  | As<br>Reported                 | Adjustments | Balances<br>Without<br>Adoption<br>of Topic<br>606 |
| <b>Cash flows from operating activities:</b> |                                |             |  |
| Net income                                   | \$5,412                        | \$ (1,696 ) | \$ 3,716   |
| Depreciation and amortization                | 61,213                         | (1,368 )    | 59,845   |
| Deferred income tax benefit                  | (3,366 )                       | (4,594 )    | (7,960 )   |
| <b>Changes in assets and liabilities:</b>    |                                |             |  |
| Inventory                                    | (70,126)                       | (1,059 )    | (71,185 )  |
| Contract assets                              | (21,582)                       | 6,576       | (15,006 )  |
| Other current assets                         | 9,325                          | (4,401 )    | 4,924  |
| Accounts payable and other liabilities       | 39,587                         | 4,887       | 44,474   |
| Contract liabilities                         | (3,746 )                       | 171         | (3,575 )   |
| Other  | 1,984                          | 1,484       | 3,468  |
| Net cash provided by continuing operations   | 28,140                         | —           | 28,140   |



The adoption of the new revenue recognition guidance resulted in offsetting shifts in cash flows within cash flows from operating activities and did not have an impact on our total cash flows from operations.

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## Note 3 - Discontinued Operations

In August 2012, our Venezuelan subsidiary sold its previously nationalized assets to PDVSA Gas, S.A. (“PDVSA Gas”) for a purchase price of approximately \$441.7 million. We received an installment payment, including an annual charge, totaling \$19.7 million during the six months ended June 30, 2017. As of June 30, 2018, the remaining principal amount due to us was approximately \$17 million. We have not recognized amounts payable to us by PDVSA Gas as a receivable and will therefore recognize payments received in the future as income from discontinued operations in the periods such payments are received. The proceeds from the sale of the assets are not subject to Venezuelan national taxes due to an exemption allowed under the Venezuelan Reserve Law applicable to expropriation settlements. In addition, and in connection with the sale, we and the Venezuelan government agreed to waive rights to assert certain claims against each other.

In accordance with the separation and distribution agreement from the Spin-off, a subsidiary of Archrock has the right to receive payments from our wholly owned subsidiary, Exterran Energy Solutions, L.P. (“EESLP”), based on a notional amount corresponding to payments received by our subsidiaries from PDVSA Gas in respect of the sale of our previously nationalized assets promptly after such amounts are collected by our subsidiaries. Pursuant to the separation and distribution agreement, we transferred cash of \$19.7 million to Archrock during the six months ended June 30, 2017. The transfer of cash was recognized as a reduction to additional paid-in capital in our financial statements. See Note 15 for further discussion related to our contingent liability to Archrock.

In the first quarter of 2016, we began executing the exit of our Belleli EPC business that has historically been comprised of engineering, procurement and construction for the manufacture of tanks for tank farms and the manufacture of evaporators and brine heaters for desalination plants in the Middle East (referred to as “Belleli EPC” or the “Belleli EPC business” herein) by ceasing the bookings of new orders. As of the fourth quarter of 2017, we had substantially exited our Belleli EPC business and, in accordance with GAAP, it is reflected as discontinued operations in our financial statements for all periods presented. Although we have reached mechanical completion on all remaining Belleli EPC contracts, we are still subject to risks and uncertainties potentially resulting from warranty obligations, customer or vendors claims against us, settlement of claims against customers, completion of demobilization activities and litigation developments. The facility previously utilized to manufacture products for our Belleli EPC business has been repurposed to manufacture product sales equipment. As such, certain personnel, buildings, equipment and other assets that were previously related to our Belleli EPC business remain a part of our continuing operations. As a result, activities associated with our ongoing operations at our repurposed facility are included in continuing operations.

The following table summarizes the operating results of discontinued operations (in thousands):

|   | Three Months Ended<br>June 30, 2018 |                |          | Three Months Ended<br>June 30, 2017 |                |          |
|---|-------------------------------------|----------------|----------|-------------------------------------|----------------|----------|
|   | Venezuela                           | Belleli<br>EPC | Total    | Venezuela                           | Belleli<br>EPC | Total    |
| Revenue   | \$—                                 | \$2,915        | \$2,915  | \$—                                 | \$12,885       | \$12,885 |
| Cost of sales (excluding depreciation and amortization expense) | —                                   | 2,808          | 2,808    | —                                   | 8,064          | 8,064    |
| Selling, general and administrative                             | 29                                  | 127            | 156      | 32                                  | 1,520          | 1,552    |
| Depreciation and amortization                                   | —                                   | 52             | 52       | —                                   | 3,099          | 3,099    |
| Other (income) expense, net                                     | —                                   | (1,689 )       | (1,689 ) | —                                   | 970            | 970      |
| Provision for (benefit from) income taxes                       | —                                   | 44             | 44       | —                                   | (1,174 )       | (1,174 ) |
| Income (loss) from discontinued operations, net of tax          | \$ (29)                             | \$1,573        | \$1,544  | \$ (32)                             | \$406          | \$374    |



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|   | Six Months Ended<br>June 30, 2018 |                |         | Six Months Ended June 30,<br>2017 |                |          |
|---|-----------------------------------|----------------|---------|-----------------------------------|----------------|----------|
|   | Venezuela                         | Belleli<br>EPC | Total   | Venezuela                         | Belleli<br>EPC | Total    |
| Revenue   | \$—                               | \$7,882        | \$7,882 | \$—                               | \$48,159       | \$48,159 |
| Cost of sales (excluding depreciation and amortization expense) | —                                 | 5,211          | 5,211   | —                                 | 26,063         | 26,063   |
| Selling, general and administrative                             | 61                                | 187            | 248     | 65                                | 2,506          | 2,571    |
| Depreciation and amortization                                   | —                                 | 480            | 480     | —                                 | 4,227          | 4,227    |
| Recovery attributable to expropriation                          | —                                 | —              | —       | (16,514)                          | —              | (16,514) |
| Restructuring and other charges                                 | —                                 | —              | —       | —                                 | (439)          | (439)    |
| Other (income) expense, net                                     | 1                                 | (1,090)        | (1,089) | (3,157)                           | 455            | (2,702)  |
| Provision for income taxes                                      | —                                 | 89             | 89      | —                                 | 1,935          | 1,935    |
| Income (loss) from discontinued operations, net of tax          | \$(62)                            | \$3,005        | \$2,943 | \$19,606                          | \$13,412       | \$33,018 |

The following table summarizes the balance sheet data for discontinued operations (in thousands):

|   | June 30, 2018 |                |          | December 31, 2017 |                |          |
|---|---------------|----------------|----------|-------------------|----------------|----------|
|   | Venezuela     | Belleli<br>EPC | Total    | Venezuela         | Belleli<br>EPC | Total    |
| Cash  | \$1           | \$—            | \$1      | \$3               | \$—            | \$3      |
| Accounts receivable   | —             | 6,022          | 6,022    | —                 | 14,770         | 14,770   |
| Costs and estimated earnings in excess of billings on uncompleted contracts | —             | 8,549          | 8,549    | —                 | 7,786          | 7,786    |
| Other current assets  | 3             | 454            | 457      | 2                 | 1,190          | 1,192    |
| Total current assets associated with discontinued operations                | 4             | 15,025         | 15,029   | 5                 | 23,746         | 23,751   |
| Property, plant and equipment, net  | —             | 91             | 91       | —                 | 1,054          | 1,054    |
| Intangible and other assets, net  | —             | 2,486          | 2,486    | —                 | 2,646          | 2,646    |
| Total assets associated with discontinued operations                        | \$4           | \$17,602       | \$17,606 | \$5               | \$27,446       | \$27,451 |
| Accounts payable  | \$—           | \$4,046        | \$4,046  | \$—               | \$9,253        | \$9,253  |
| Accrued liabilities   | 63            | 11,726         | 11,789   | 59                | 15,617         | 15,676   |
| Billings on uncompleted contracts in excess of costs and estimated earnings | —             | 4,870          | 4,870    | —                 | 7,042          | 7,042    |
| Total current liabilities associated with discontinued operations           | 63            | 20,642         | 20,705   | 59                | 31,912         | 31,971   |
| Other long-term liabilities   | —             | 5,895          | 5,895    | 1                 | 6,527          | 6,528    |
| Total liabilities associated with discontinued operations                   | \$63          | \$26,537       | \$26,600 | \$60              | \$38,439       | \$38,499 |

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## Note 4 - Inventory, net

Inventory, net of reserves, consisted of the following amounts (in thousands):

|                               | June 30,<br>2018 | December 31,<br>2017 |
|-------------------------------|------------------|----------------------|
| Parts and supplies            | \$82,744         | \$ 79,803            |
| Work in progress              | 54,906           | 21,853               |
| Finished goods <sup>(1)</sup> | 23,558           | 6,253                |
| Inventory, net                | \$161,208        | \$ 107,909           |

The increase in finished goods inventory during the six months ended June 30, 2018 was primarily due to a nonmonetary agreement that we entered into with an existing customer to receive an idle processing and treating plant from the customer in exchange for an identical processing and treating plant to be manufactured by us. We <sup>(1)</sup> recorded the finished goods inventory received and our corresponding liability to the customer at fair value based on the estimated resale price of the processing and treating plant received. The liability resulting from this transaction is included within accounts payable, trade, in our balance sheet and will be extinguished upon our delivery of the replacement processing and treating plant to the customer.

## Note 5 - Property, Plant and Equipment, net

Property, plant and equipment, net, consisted of the following (in thousands):

|   | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| Compression equipment, facilities and other fleet assets <sup>(1)</sup> | \$1,621,706      | \$1,577,052          |
| Land and buildings  | 98,516           | 96,463               |
| Transportation and shop equipment                                       | 81,968           | 82,240               |
| Other   | 94,823           | 90,395               |
|   | 1,897,013        | 1,846,150            |
| Accumulated depreciation  | (1,058,958 )     | (1,023,871 )         |
| Property, plant and equipment, net                                      | \$838,055        | \$ 822,279           |

In the fourth quarter of 2017, we evaluated the estimated useful lives and salvage values of our property, plant and equipment. As a result of this evaluation, we changed the useful lives and salvage values for our compression <sup>(1)</sup> equipment from a maximum useful life of 30 years to 23 years and a maximum salvage value of 20% to 15% based on expected future use. During the three and six months ended June 30, 2018, we recorded increases in depreciation expense of \$2.0 million and \$5.1 million, respectively, as a result of these changes in useful lives and salvage values which impacted our diluted net income per share by \$0.06 and \$0.14, respectively.

## Note 6 - Sale of PEQ Assets

In the fourth quarter of 2017, we classified certain current and long-term assets primarily related to inventory and property, plant and equipment, net, within our product sales business as assets held for sale in our balance sheets. In April 2018, we entered into a definitive agreement for the sale of these assets to Titan Production Equipment Acquisition, LLC, an affiliate of Castle Harlan, Inc. During the six months ended June 30, 2018, we recorded an additional impairment of \$1.8 million to reduce these assets to their approximate fair values based on the expected net proceeds. The impairment charges are reflected in long-lived asset impairment in our statements of operations.

In June 2018, we completed the sale of our PEQ assets. The sale of our PEQ assets resulted in a loss of \$1.7 million during the three and six months ended June 30, 2018, which is reflected in other (income), expense, net, in our statements of operations.

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## Note 7 - Debt

Debt consisted of the following (in thousands):

|   | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| Revolving credit facility due November 2020                 | \$32,500         | \$ —                 |
| 8.125% senior notes due May 2025                            | 375,000          | 375,000              |
| Other debt  | 912              | 1,171                |
| Unamortized deferred financing costs of 8.125% senior notes | (6,844 )         | (7,250 )             |
| Total debt  | 401,568          | 368,921              |
| Less: Amounts due within one year <sup>(1)</sup>            | (449 )           | (449 )               |
| Long-term debt  | \$401,119        | \$ 368,472           |

<sup>(1)</sup> Short-term debt and the current portion of long-term debt are included in accrued liabilities in our balance sheets.

## Revolving Credit Facility

We and our wholly owned subsidiary, EESLP, are parties to an amended and restated credit agreement (the “Credit Agreement”) consisting of a \$680.0 million revolving credit facility expiring in November 2020 and previously included a term loan facility. In April 2017, we paid the remaining principal amount of \$232.8 million due under the term loan facility with proceeds from the 2017 Notes (as defined below) issuance. As a result of the repayment of the term loan facility, we expensed \$1.7 million of unamortized deferred financing costs in the second quarter of 2017, which is reflected in interest expense in our statements of operations.

As of June 30, 2018, we had \$32.5 million in outstanding borrowings and \$57.3 million in outstanding letters of credit under our revolving credit facility. At June 30, 2018, taking into account guarantees through letters of credit, we had undrawn capacity of \$590.2 million under our revolving credit facility. Our Credit Agreement limits our senior secured leverage ratio (as defined in the Credit Agreement) on the last day of the fiscal quarter to no greater than 2.75 to 1.0. As a result of this limitation, \$566.3 million of the \$590.2 million of undrawn capacity under our revolving credit facility was available for additional borrowings as of June 30, 2018.

## 8.125% Senior Notes Due May 2025

In April 2017, our 100% owned subsidiaries EESLP and EES Finance Corp. issued \$375.0 million aggregate principal amount of 8.125% senior unsecured notes due 2025 (the “2017 Notes”). The 2017 Notes are guaranteed by us on a senior unsecured basis. Pursuant to the separation and distribution agreement from the Spin-off, EESLP used proceeds from the issuance of the 2017 Notes to pay a subsidiary of Archrock \$25.0 million in satisfaction of EESLP’s obligation to pay that sum following the occurrence of a qualified capital raise. The transfer of cash to Archrock’s subsidiary was recognized as a reduction to additional paid-in capital in the second quarter of 2017.

In connection with the issuance of the 2017 Notes, we incurred transaction costs of \$8.1 million related to the issuance of the 2017 Notes. These costs are presented as a direct deduction from the carrying value of the 2017 Notes and are being amortized over the term of the 2017 Notes.

In April 2018, the 2017 Notes were exchanged for notes with substantially identical terms and registered under the Securities Act of 1933, as amended.

Note 8 - Fair Value Measurements

The accounting standard for fair value measurements and disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three categories:

Level 1 — Quoted unadjusted prices for identical instruments in active markets to which we have access at the date of measurement.



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Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or prices vary substantially over time or among brokered market makers.

Level 3 — Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect our own assumptions regarding how market participants would price the asset or liability based on the best available information.

## Nonrecurring Fair Value Measurements

The following table presents our assets and liabilities measured at fair value on a nonrecurring basis during the six months ended June 30, 2018, with pricing levels as of the date of valuation (in thousands):

|   | Six Months Ended<br>June 30, 2018 |                     |
|---|-----------------------------------|---------------------|
|   | (Level 1)                         | (Level 2) (Level 3) |
| Impaired assets—assets held for sale <sup>(1)</sup> | \$—                               | —\$ 21,026          |
| Long-term note receivable <sup>(2)</sup>            | —                                 | 14,573              |

- (1) Our estimate of the fair value of the impaired PEQ assets, which were classified as assets held for sale as of March 31, 2018, was based on the expected net proceeds from the sale of the assets.
- (2) Our estimate of the fair value of a note receivable was discounted based on a settlement period of eight years and a discount rate of 5.2%.

## Financial Instruments

Our financial instruments consist of cash, restricted cash, receivables, payables and debt. At June 30, 2018 and December 31, 2017, the estimated fair values of cash, restricted cash, receivables and payables approximated their carrying amounts as reflected in our balance sheets due to the short-term nature of these financial instruments.

The fair value of the 2017 Notes was estimated based on model derived calculations using market yields observed in active markets, which are Level 2 inputs. As of June 30, 2018 and December 31, 2017, the carrying amount of the 2017 Notes, excluding unamortized deferred financing costs, of \$375.0 million was estimated to have a fair value of \$399.0 million and \$404.0 million, respectively. Due to the variable rate nature of our revolving credit facility, the carrying value as of June 30, 2018 approximated the fair value as the rate was comparable to the then-current market rate at which debt with similar terms could have been obtained.

## Note 9 - Long-Lived Asset Impairment

We review long-lived assets, including property, plant and equipment and identifiable intangibles that are being amortized, for impairment whenever events or changes in circumstances, including the removal of compressor units from our active fleet, indicate that the carrying amount of an asset may not be recoverable.

In the fourth quarter of 2017, we classified our PEQ assets primarily related to inventory and property, plant and equipment, net, within our product sales business as assets held for sale in our balance sheets. As described in Note 6, in June 2018, we completed the sale of our PEQ assets. During the six months ended June 30, 2018, we recorded an

impairment of \$1.8 million to reduce these assets to their approximate fair values based on the expected net proceeds.

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## Note 10 - Restatement Related Charges (Recoveries), net

During the first quarter of 2016, our senior management identified errors relating to the application of percentage-of-completion accounting principles to specific Belleli EPC product sales projects. We incurred restatement related charges of \$1.6 million during the three months ended June 30, 2017, and \$0.6 million and \$3.8 million during the six months ended June 30, 2018 and 2017, respectively. The costs incurred were external costs associated with an SEC investigation and remediation activities related to the restatement of our financial statements. During the three and six months ended June 30, 2018 and 2017, we recorded recoveries from Archrock pursuant to the separation and distribution agreement of \$0.6 million and \$2.8 million, respectively, for previously incurred restatement related costs. We may incur additional cash expenditures related to external legal counsel costs associated with an ongoing SEC investigation surrounding the restatement of our financial statements, of which a portion may be recoverable from Archrock.

The following table summarizes the changes to our accrued liability balance related to restatement charges, net, for the six months ended June 30, 2017 and 2018 (in thousands):

|                                      | Restatement<br>Related<br>Charges |
|--------------------------------------|-----------------------------------|
| Beginning balance at January 1, 2017 | \$ 2,212                          |
| Additions for costs expensed, net    | 1,014                             |
| Reductions for payments, net         | (1,472 )                          |
| Ending balance at June 30, 2017      | \$ 1,754                          |
| Beginning balance at January 1, 2018 | \$ 579                            |
| Additions for costs expensed, net    | 24                                |
| Reductions for payments, net         | (367 )                            |
| Ending balance at June 30, 2018      | \$ 236                            |

The following table summarizes the components of charges included in restatement related charges (recoveries), net, in our statements of operations for the three and six months ended June 30, 2018 and 2017 (in thousands):

|   | Three Months<br>Ended June 30, |           | Six Months<br>Ended<br>June 30, |          |
|---|--------------------------------|-----------|---------------------------------|----------|
|   | 2018                           | 2017      | 2018                            | 2017     |
| External accounting costs                           | \$—                            | \$108     | \$—                             | \$754    |
| External legal costs                                | —                              | 1,449     | 533                             | 2,692    |
| Other   | 18                             | 86        | 106                             | 369      |
| Recoveries from Archrock                            | (615 )                         | (2,801 )  | (615)                           | (2,801 ) |
| Total restatement related charges (recoveries), net | \$(597)                        | \$(1,158) | \$24                            | \$1,014  |

## Note 11 - Restructuring and Other Charges

In the second quarter of 2018, we initiated a relocation plan in the North America region to better align our contract operations business with our customers. As a result of this plan, during the three and six months ended June 30, 2018, we incurred restructuring and other charges of \$1.4 million primarily related to employee termination benefits. As of June 30, 2018, the accrued liability balance related to this plan was \$1.0 million. The charges incurred in conjunction with this relocation plan are included in restructuring and other charges in our statements of operations. We currently estimate that we will incur additional charges with respect to this relocation plan of approximately \$1.5 million. We

expect the majority of the estimated additional charges will result in cash expenditures.

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In connection with the Spin-off, we incurred restructuring and other charges of \$0.3 million during the six months ended June 30, 2017 primarily related to retention awards to certain employees. During the three months ended June 30, 2017, we recorded a restructuring benefit of \$0.1 million related to changes in estimated retention awards to be paid for certain employees. Additionally, we announced a cost reduction plan primarily focused on workforce reductions and the reorganization of certain facilities in the second quarter of 2015. We incurred restructuring and other charges associated with the cost reduction plan of \$0.4 million and \$2.4 million during the three and six months ended June 30, 2017, respectively, of which \$0.4 million and \$1.9 million, respectively, related to employee termination benefits. The charges incurred in conjunction with the Spin-off and cost reduction plan are reflected as restructuring and other charges in our statements of operations. In 2017, we completed restructuring activities related to the Spin-off and cost reduction plan.

The following table summarizes the components of charges included in restructuring and other charges in our statements of operations for the three and six months ended June 30, 2018 and 2017 (in thousands):

|                                       | Three Months<br>Ended<br>June 30, |        | Six Months<br>Ended June 30, |         |
|---------------------------------------|-----------------------------------|--------|------------------------------|---------|
|                                       | 2018                              | 2017   | 2018                         | 2017    |
| Retention awards to certain employees | \$—                               | \$(92) | \$—                          | \$253   |
| Employee termination benefits         | 1,356                             | 361    | 1,356                        | 1,894   |
| Other                                 | 66                                | 41     | 66                           | 471     |
| Total restructuring and other charges | \$1,422                           | \$310  | \$1,422                      | \$2,618 |

## Note 12 - Provision for Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Reform Act”). Additionally, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB118”) in December 2017, which addresses how a company recognizes provisional amounts when a company does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effect of the changes in the Tax Reform Act. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year.

For the year ended December 31, 2017, our provision for income tax included the impact of decisions regarding the various impacts of tax reform and related disclosures. In some cases where the guidance in SAB118 applied, we disclosed in our financial statements those cases where the accounting could be completed, and for matters that have not been completed, we recognized provisional amounts to the extent that they are reasonably estimable and will adjust them over time as more information becomes available. Specifically, we recorded provisional amounts associated with the transition tax on undistributed earnings, the re-measurement of deferred tax assets and liabilities due to the reduction in the corporate tax rate and the transition tax, and the tax benefit associated with the reduction of the valuation allowance. The provisional amounts incorporate assumptions made based upon our current interpretation of the Tax Reform Act and may change as we receive additional clarification and implementation guidance. We are continuing to analyze additional information to determine the final impact as well as other impacts of the Tax Reform Act. Any adjustments recorded to the provisional amounts will be included in income from operations as an adjustment to our 2018 financial statements.

The provision for income taxes for the three and six months ended June 30, 2018 includes \$5.7 million related to income tax on income in Argentina recorded as a result of foreign exchange rate movements.

During the second quarter of 2017, our Brazil subsidiary entered the Tax Regularization Program (the “Program”) pursuant to Brazil Provisional Measure No. 766 issued on January 4, 2017. The Program allows for the partial settling of debts, both income tax debts and non-income-based tax debts, due by November 30, 2016 to Brazil’s Federal Revenue Service with the use of tax credits, including income tax loss carryforwards. An \$11.9 million income tax benefit was recorded during the three and six months ended June 30, 2017 attributable to the reversal of valuation allowances against certain deferred tax assets related to income tax loss carryforwards that were utilized under the Program, including interest income. Additionally, during the three and six months ended June 30, 2017, we incurred \$1.5 million in penalties, which is reflected in other (income) expense, net, in our statements of operations, and \$2.4 million in interest expense, which is reflected in interest expense in our statements of operations, attributable to the settling of non-income-based tax debts in connection with the Program.

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## Note 13 - Stock-Based Compensation

## Stock Options

Stock options are granted at fair market value at the grant date, are exercisable according to the vesting schedule established and generally expire no later than ten years after the grant date. Stock options generally vest one-third per year on each of the first three anniversaries of the grant date. There were no stock options granted during the six months ended June 30, 2018.

## Restricted Stock, Restricted Stock Units and Performance Units

For grants of restricted stock, restricted stock units and performance units, we recognize compensation expense over the applicable vesting period equal to the fair value of our common stock at the grant date. Grants of restricted stock, restricted stock units and performance units generally vest one third per year on each of the first three anniversaries of the grant date. Certain grants of restricted stock vest on the third anniversary of the grant date and certain grants of performance units vest on the second anniversary of the grant date.

The table below presents the changes in restricted stock, restricted stock units and performance units for our common stock during the six months ended June 30, 2018.

|                                    | Shares<br>(in thousands) | Weighted<br>Average<br>Grant-Date<br>Fair<br>Value<br>Per Share |
|------------------------------------|--------------------------|---|
| Non-vested awards, January 1, 2018 | 1,165                    | \$ 23.93  |
| Granted                            | 558                      | 26.25   |
| Vested                             | (444 )                   | 23.24   |
| Cancelled                          | (75 )                    | 25.36   |
| Non-vested awards, June 30, 2018   | 1,204                    | 25.17   |

As of June 30, 2018, we estimate \$24.7 million of unrecognized compensation cost related to unvested restricted stock, restricted stock units and performance units issued to our employees to be recognized over the weighted-average vesting period of 1.8 years.

## Note 14 - Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed using the two-class method, which is an earnings allocation formula that determines net income (loss) per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Under the two-class method, basic net income (loss) per common share is determined by dividing net income (loss) after deducting amounts allocated to participating securities, by the weighted average number of common shares outstanding for the period. Participating securities include unvested restricted stock and restricted stock units that have non-forfeitable rights to receive dividends or dividend equivalents, whether paid or unpaid. During periods of net loss from continuing operations, no effect is given to participating securities because they do not have a contractual obligation to participate in our losses.

Diluted net income (loss) per common share is computed using the weighted average number of common shares outstanding adjusted for the incremental common stock equivalents attributed to outstanding options to purchase

common stock and non-participating restricted stock units, unless their effect would be anti-dilutive.



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The following table presents a reconciliation of basic and diluted net income per common share for the three and six months ended June 30, 2018 and 2017 (in thousands, except per share data):

|  | Three Months<br>Ended June 30, |         | Six Months Ended<br>June 30, |           |
|--|--------------------------------|---------|------------------------------|-----------|
|  | 2018                           | 2017    | 2018                         | 2017      |
| Numerator for basic and diluted net income per common share:                             |                                |         |                              |           |
| Income (loss) from continuing operations   | \$(1,469)                      | \$3,170 | \$2,469                      | \$(9,153) |
| Income from discontinued operations, net of tax  | 1,544                          | 374     | 2,943                        | 33,018    |
| Less: Net income attributable to participating securities                                | —                              | (102)   | (143)                        | —         |
| Net income — used in basic and diluted net income per common share                       | \$75                           | \$3,442 | \$5,269                      | \$23,865  |
| Weighted average common shares outstanding including participating securities            |                                |         |                              |           |
|  | 36,447                         | 36,057  | 36,340                       | 35,967    |
| Less: Weighted average participating securities outstanding                              | (992)                          | (1,039) | (964)                        | (1,054)   |
| Weighted average common shares outstanding — used in basic net income per common share   | 35,455                         | 35,018  | 35,376                       | 34,913    |
| Net dilutive potential common shares issuable:   |                                |         |                              |           |
| On exercise of options and vesting of restricted stock units                             | *                              | 76      | 70                           | *         |
| Weighted average common shares outstanding — used in diluted net income per common share | 35,455                         | 35,094  | 35,446                       | 34,913    |
| Net income per common share:   |                                |         |                              |           |
| Basic  | \$—                            | \$0.10  | \$0.15                       | \$0.68    |
| Diluted  | \$—                            | \$0.10  | \$0.15                       | \$0.68    |

\*Excluded from diluted net income per common share as their inclusion would have been anti-dilutive.

The following table shows the potential shares of common stock issuable that were excluded from computing diluted net income per common share as their inclusion would have been anti-dilutive for the three and six months ended June 30, 2018 and 2017 (in thousands):

|  | Three<br>Months<br>Ended<br>June 30,<br>2018 |    | Six<br>Months<br>Ended<br>June 30,<br>2017 |     |
|--|--|----|--|-----|
| Net dilutive potential common shares issuable:                                   |  |    |  |     |
| On exercise of options where exercise price is greater than average market value | 35   | 48 | 35   | 49  |
| On exercise of options and vesting of restricted stock units                     | 66   | —  | —  | 86  |
| Net dilutive potential common shares issuable                                    | 101  | 48 | 35   | 135 |

## Note 15 - Commitments and Contingencies

## Contingencies

See Note 3 for a discussion of our gain contingencies related to assets that were expropriated in Venezuela.

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Pursuant to the separation and distribution agreement, EESLP contributed to a subsidiary of Archrock the right to receive payments based on a notional amount corresponding to payments received by our subsidiaries from PDVSA Gas in respect of the sale of our and our joint ventures' previously nationalized assets promptly after such amounts are collected by our subsidiaries until Archrock's subsidiary has received an aggregate amount of such payments up to the lesser of (i) \$125.8 million, plus the aggregate amount of all reimbursable expenses incurred by Archrock and its subsidiaries in connection with recovering any PDVSA Gas default installment payments following the completion of the Spin-off or (ii) \$150.0 million. Our balance sheets do not reflect this contingent liability to Archrock or the amount payable to us by PDVSA Gas as a receivable. Pursuant to the separation and distribution agreement, we transferred cash of \$19.7 million to Archrock during the six months ended June 30, 2017. The transfer of cash was recognized as a reduction to additional paid-in capital in our financial statements. As of June 30, 2018, the remaining principal amounts due to us from PDVSA Gas in respect of the sale of our previously nationalized assets and our joint ventures' previously nationalized assets were approximately \$17 million and \$4 million, respectively. In subsequent periods, the recognition of a liability, if applicable, resulting from this contingency to Archrock is expected to impact equity, and as such, is not expected to have an impact on our statements of operations.

In addition to U.S. federal, state and local and foreign income taxes, we are subject to a number of taxes that are not income-based. As many of these taxes are subject to audit by the taxing authorities, it is possible that an audit could result in additional taxes due. We accrue for such additional taxes when we determine that it is probable that we have incurred a liability and we can reasonably estimate the amount of the liability. As of June 30, 2018 and December 31, 2017, we had accrued \$2.7 million and \$2.8 million, respectively, for the outcomes of non-income-based tax audits. We do not expect that the ultimate resolutions of these audits will result in a material variance from the amounts accrued. We do not accrue for unasserted claims for tax audits unless we believe the assertion of a claim is probable, it is probable that it will be determined that the claim is owed and we can reasonably estimate the claim or range of the claim. We do not have any unasserted claims from non-income based tax audits that we have determined are probable of assertion. We also believe the likelihood is remote that the impact of potential unasserted claims from non-income-based tax audits could be material to our financial position, but it is possible that the resolution of future audits could be material to our results of operations or cash flows for the period in which the resolution occurs.

Our business can be hazardous, involving unforeseen circumstances such as uncontrollable flows of natural gas or well fluids and fires or explosions. As is customary in our industry, we review our safety equipment and procedures and carry insurance against some, but not all, risks of our business. Our insurance coverage includes property damage, general liability, commercial automobile liability and other coverage we believe is appropriate. We believe that our insurance coverage is customary for the industry and adequate for our business; however, losses and liabilities not covered by insurance would increase our costs.

Additionally, we are substantially self-insured for workers' compensation and employee group health claims in view of the relatively high per-incident deductibles we absorb under our insurance arrangements for these risks. Losses up to the deductible amounts are estimated and accrued based upon known facts, historical trends and industry averages.

## Litigation and Claims

In the ordinary course of business, we are involved in various pending or threatened legal actions. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from any of these actions will not have a material adverse effect on our financial position, results of operations or cash flows. However, because of the inherent uncertainty of litigation and arbitration proceedings, we cannot provide assurance that the resolution of any particular claim or proceeding to which we are a party will not have a material adverse effect on our financial position, results of operations or cash flows.

Contemporaneously with filing the Form 8-K on April 26, 2016, we self-reported the errors and possible irregularities at Belleli EPC to the SEC. Since then, we have been cooperating with the SEC in its investigation of this matter. The SEC's investigation related to the circumstances giving rise to the restatement is continuing, and we are presently unable to predict the duration, scope or results or whether the SEC will commence any legal action.

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## Indemnifications

In conjunction with, and effective as of the completion of, the Spin-off, we entered into the separation and distribution agreement with Archrock, which governs, among other things, the treatment between Archrock and us relating to certain aspects of indemnification, insurance, confidentiality and cooperation. 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 financial responsibility for the obligations and liabilities of Archrock's business with Archrock. Pursuant to the agreement, we and Archrock will generally release the other party from all claims arising prior to the Spin-off that relate to the other party's business, subject to certain exceptions. Additionally, in conjunction with, and effective as of the completion of, the Spin-off, we entered into the tax matters agreement with Archrock. Under the tax matters agreement and subject to certain exceptions, we are generally liable for, and indemnify Archrock against, taxes attributable to our business, and Archrock is generally liable for, and indemnify us against, all taxes attributable to its business. We are generally liable for, and indemnify Archrock against, 50% of certain taxes that are not clearly attributable to our business or Archrock's business. Any payment made by us to Archrock, or by Archrock to us, is treated by all parties for tax purposes as a nontaxable distribution or capital contribution, respectively, made immediately prior to the Spin-off.

## Note 16 - Reportable Segments

Our chief operating decision maker manages business operations, evaluates performance and allocates resources based upon the type of product or service provided. We have three reportable segments: contract operations, aftermarket services and product sales. In our contract operations segment, we own and operate natural gas compression equipment and crude oil and natural gas production and processing equipment on behalf of our customers outside of the U.S. In our aftermarket services segment, we sell parts and components and provide operations, maintenance, overhaul, upgrade, commissioning and reconfiguration services to customers who own their own compression, production, processing, treating and related equipment. In our product sales segment, we design, engineer, manufacture, install and sell natural gas compression packages as well as equipment used in the treating and processing of crude oil and natural gas to our customers throughout the world and for use in our contract operations business line.

We evaluate the performance of our segments based on gross margin for each segment. Revenue only includes sales to external customers. We do not include intersegment sales when we evaluate our segments' performance.

The following table presents revenue and other financial information by reportable segment for the three and six months ended June 30, 2018 and 2017 (in thousands):

| Three Months Ended          | Contract<br>Operations | Aftermarket<br>Services | Product<br>Sales | Reportable<br>Segments<br>Total |
|-----------------------------|------------------------|-------------------------|------------------|---------------------------------|
| June 30, 2018:              |                        |                         |                  |                                 |
| Revenue                     | \$ 91,487              | \$ 32,267               | \$ 219,717       | \$ 343,471                      |
| Gross margin <sup>(1)</sup> | 59,115                 | 8,561                   | 27,955           | 95,631                          |
| June 30, 2017:              |                        |                         |                  |                                 |
| Revenue                     | \$ 95,341              | \$ 24,244               | \$ 198,116       | \$ 317,701                      |
| Gross margin <sup>(1)</sup> | 60,650                 | 6,966                   | 20,091           | 87,707                          |
| Six Months Ended            | Contract<br>Operations | Aftermarket<br>Services | Product<br>Sales | Reportable<br>Segments<br>Total |

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June 30, 2018:

|                             |            |           |           |            |
|-----------------------------|------------|-----------|-----------|------------|
| Revenue                     | \$ 187,980 | \$ 58,638 | \$447,236 | \$ 693,854 |
| Gross margin <sup>(1)</sup> | 120,223    | 16,035    | 55,138    | 191,396    |

June 30, 2017:

|                             |            |           |           |            |
|-----------------------------|------------|-----------|-----------|------------|
| Revenue                     | \$ 187,386 | \$ 46,768 | \$328,972 | \$ 563,126 |
| Gross margin <sup>(1)</sup> | 121,897    | 12,878    | 31,410    | 166,185    |

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<sup>(1)</sup> Gross margin is defined as revenue less cost of sales (excluding depreciation and amortization expense).

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The following table reconciles income before income taxes to total gross margin (in thousands):

|   | Three Months   |          | Six Months Ended |           |
|---|----------------|----------|------------------|-----------|
|   | Ended June 30, |          | June 30,         |           |
|   | 2018           | 2017     | 2018             | 2017      |
| Income before income taxes                    | \$8,153        | \$2,530  | \$17,583         | \$2,097   |
| Selling, general and administrative           | 44,382         | 44,564   | 88,624           | 88,975    |
| Depreciation and amortization                 | 30,184         | 26,348   | 61,213           | 51,100    |
| Long-lived asset impairment                   | —              | —        | 1,804            | —         |
| Restatement related charges (recoveries), net | (597)          | (1,158)  | 24               | 1,014     |
| Restructuring and other charges               | 1,422          | 310      | 1,422            | 2,618     |
| Interest expense                              | 6,883          | 12,382   | 14,102           | 19,469    |
| Other (income) expense, net                   | 5,204          | 2,731    | 6,624            | 912       |
| Total gross margin                            | \$95,631       | \$87,707 | \$191,396        | \$166,185 |

## Note 17 - Supplemental Guarantor Financial Information

In April 2017, our 100% owned subsidiaries EESLP and EES Finance Corp. (together, the “Issuers”) issued the 2017 Notes, which consists of \$375.0 million aggregate principal amount senior unsecured notes. In April 2018, the 2017 Notes were exchanged for notes with substantially identical terms and registered under the Securities Act of 1933, as amended. The 2017 Notes were, and the exchange notes issued in April 2018 are, fully and unconditionally guaranteed on a joint and several senior unsecured basis by Exterran Corporation (the “Parent Guarantor” or “Parent”). All other consolidated subsidiaries of Exterran are collectively referred to as the “Non-Guarantor Subsidiaries.” As a result of the Parent’s guarantee, we are presenting the following condensed consolidating financial information pursuant to Rule 3-10 of Regulation S-X, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered. These schedules are presented using the equity method of accounting for all periods presented. For purposes of the following condensed consolidating financial information, the Parent Guarantor’s investments in its subsidiaries, the Issuers’ investments in the Non-Guarantors Subsidiaries and the Non-Guarantor Subsidiaries’ investments in the Issuers are accounted for under the equity method of accounting. Under this method, investments in subsidiaries are recorded at cost and adjusted for our share in the subsidiaries’ cumulative results of operations, capital contributions and distributions and other changes in equity. Elimination entries relate primarily to the elimination of investments in subsidiaries and associated intercompany balances and transactions.

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Condensed Consolidating Balance Sheet  
June 30, 2018  
(In thousands)

|   | Parent<br>Guarantor | Issuers      | Non-<br>Guarantor<br>Subsidiaries | Eliminations   | Consolidation |
|---|---------------------|--------------|-----------------------------------|----------------|---------------|
| <b>ASSETS</b>   |                     |              |                                   |                |               |
| Cash and cash equivalents                                     | \$ 84               | \$ 808       | \$ 17,300                         | \$—            | \$ 18,192     |
| Restricted cash   | —                   | —            | 546                               | —              | 546           |
| Accounts receivable, net                                      | —                   | 114,909      | 147,005                           | —              | 261,914       |
| Inventory, net  | —                   | 100,524      | 60,684                            | —              | 161,208       |
| Contract assets   | —                   | 44,327       | 28,047                            | —              | 72,374        |
| Intercompany receivables                                      | —                   | 185,531      | 362,879                           | (548,410 )     | —             |
| Other current assets  | —                   | 7,860        | 22,244                            | —              | 30,104        |
| Current assets associated with discontinued operations        | —                   | —            | 15,029                            | —              | 15,029        |
| Total current assets  | 84                  | 453,959      | 653,734                           | (548,410 )     | 559,367       |
| Property, plant and equipment, net                            | —                   | 268,484      | 569,571                           | —              | 838,055       |
| Investment in affiliates                                      | 548,122             | 829,223      | (281,101 )                        | (1,096,244 )   | —             |
| Deferred income taxes   | —                   | 5,488        | 6,989                             | —              | 12,477        |
| Intangible and other assets, net                              | —                   | 27,214       | 73,744                            | —              | 100,958       |
| Long-term assets associated with discontinued operations      | —                   | —            | 2,577                             | —              | 2,577         |
| Total assets  | \$ 548,206          | \$ 1,584,368 | \$ 1,025,514                      | \$ (1,644,654) | \$ 1,513,434  |
| <b>LIABILITIES AND EQUITY</b>                                 |                     |              |                                   |                |               |
| Accounts payable, trade                                       | \$—                 | \$ 151,622   | \$ 38,991                         | \$—            | \$ 190,613    |
| Accrued liabilities   | —                   | 38,453       | 74,059                            | —              | 112,512       |
| Contract liabilities  | —                   | 65,707       | 39,591                            | —              | 105,298       |
| Intercompany payables   | 1,255               | 362,879      | 184,276                           | (548,410 )     | —             |
| Current liabilities associated with discontinued operations   | —                   | —            | 20,705                            | —              | 20,705        |
| Total current liabilities                                     | 1,255               | 618,661      | 357,622                           | (548,410 )     | 429,128       |
| Long-term debt  | —                   | 401,119      | —                                 | —              | 401,119       |
| Deferred income taxes   | —                   | —            | 6,206                             | —              | 6,206         |
| Long-term contract liabilities                                | —                   | 7,001        | 78,061                            | —              | 85,062        |
| Other long-term liabilities                                   | —                   | 9,465        | 29,608                            | —              | 39,073        |
| Long-term liabilities associated with discontinued operations | —                   | —            | 5,895                             | —              | 5,895         |
| Total liabilities   | 1,255               | 1,036,246    | 477,392                           | (548,410 )     | 966,483       |
| Total Equity  | 546,951             | 548,122      | 548,122                           | (1,096,244 )   | 546,951       |
| Total liabilities and equity                                  | \$ 548,206          | \$ 1,584,368 | \$ 1,025,514                      | \$ (1,644,654) | \$ 1,513,434  |





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Condensed Consolidating Balance Sheet  
December 31, 2017  
(In thousands)

|   | Parent<br>Guarantor | Issuers      | Non-<br>Guarantor<br>Subsidiaries | Eliminations  | Consolidation |
|---|---------------------|--------------|-----------------------------------|---------------|---------------|
| <b>ASSETS</b>   |                     |              |                                   |               |               |
| Cash and cash equivalents   | \$ 397              | \$24,195     | \$ 24,553                         | \$—           | \$ 49,145     |
| Restricted cash   | —                   | —            | 546                               | —             | 546           |
| Accounts receivable, net  | —                   | 123,362      | 142,690                           | —             | 266,052       |
| Inventory, net  | —                   | 50,528       | 57,381                            | —             | 107,909       |
| Costs and estimated earnings in excess of billings on uncompleted contracts | —                   | 33,439       | 7,256                             | —             | 40,695        |
| Intercompany receivables  | —                   | 158,296      | 359,766                           | (518,062 )    | —             |
| Other current assets  | —                   | 6,095        | 32,612                            | —             | 38,707        |
| Current assets held for sale  | —                   | 15,761       | —                                 | —             | 15,761        |
| Current assets associated with discontinued operations                      | —                   | —            | 23,751                            | —             | 23,751        |
| Total current assets  | 397                 | 411,676      | 648,555                           | (518,062 )    | 542,566       |
| Property, plant and equipment, net  | —                   | 288,670      | 533,609                           | —             | 822,279       |
| Investment in affiliates  | 555,735             | 831,097      | (275,362 )                        | (1,111,470 )  | —             |
| Deferred income taxes   | —                   | 5,452        | 5,098                             | —             | 10,550        |
| Intangible and other assets, net  | —                   | 12,218       | 64,762                            | —             | 76,980        |
| Long-term assets held for sale  | —                   | 4,732        | —                                 | —             | 4,732         |
| Long-term assets associated with discontinued operations                    | —                   | —            | 3,700                             | —             | 3,700         |
| Total assets  | \$ 556,132          | \$ 1,553,845 | \$ 980,362                        | \$(1,629,532) | \$ 1,460,807  |
| <b>LIABILITIES AND EQUITY</b>   |                     |              |                                   |               |               |
| Accounts payable, trade   | \$—                 | \$ 115,273   | \$ 33,471                         | \$—           | \$ 148,744    |
| Accrued liabilities   | 57                  | 54,724       | 59,555                            | —             | 114,336       |
| Deferred revenue  | —                   | 2,162        | 21,740                            | —             | 23,902        |
| Billings on uncompleted contracts in excess of costs and estimated earnings | —                   | 89,002       | 563                               | —             | 89,565        |
| Intercompany payables   | 1,289               | 359,766      | 157,007                           | (518,062 )    | —             |
| Current liabilities associated with discontinued operations                 | —                   | —            | 31,971                            | —             | 31,971        |
| Total current liabilities   | 1,346               | 620,927      | 304,307                           | (518,062 )    | 408,518       |
| Long-term debt  | —                   | 368,472      | —                                 | —             | 368,472       |
| Deferred income taxes   | —                   | —            | 9,746                             | —             | 9,746         |
| Long-term deferred revenue  | —                   | 629          | 91,856                            | —             | 92,485        |
| Other long-term liabilities   | —                   | 8,082        | 12,190                            | —             | 20,272        |
| Long-term liabilities associated with discontinued operations               | —                   | —            | 6,528                             | —             | 6,528         |
| Total liabilities   | 1,346               | 998,110      | 424,627                           | (518,062 )    | 906,021       |

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|                              |            |              |            |               |              |
|------------------------------|------------|--------------|------------|---------------|--------------|
| Total Equity                 | 554,786    | 555,735      | 555,735    | (1,111,470 )  | 554,786      |
| Total liabilities and equity | \$ 556,132 | \$ 1,553,845 | \$ 980,362 | \$(1,629,532) | \$ 1,460,807 |

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)  
 Three Months Ended June 30, 2018  
 (In thousands)

|   | Parent<br>Guarantor | Issuers    | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidation |
|---|---------------------|------------|-----------------------------------|--------------|---------------|
| Revenues  | \$ —                | \$ 240,333 | \$ 123,301                        | \$ (20,163 ) | \$ 343,471    |
| Cost of sales (excluding depreciation and amortization expense)   | —                   | 198,589    | 69,414                            | (20,163 )    | 247,840       |
| Selling, general and administrative                               | 352                 | 21,152     | 22,878                            | —            | 44,382        |
| Depreciation and amortization                                     | —                   | 8,688      | 21,496                            | —            | 30,184        |
| Restatement related recoveries, net                               | —                   | (597 )     | —                                 | —            | (597 )        |
| Restructuring and other charges                                   | —                   | —          | 1,422                             | —            | 1,422         |
| Interest expense  | —                   | 5,284      | 1,599                             | —            | 6,883         |
| Intercompany charges, net   | —                   | 1,348      | (1,348 )                          | —            | —             |
| Equity in (income) loss of affiliates                             | (274 )              | 423        | (12,488 )                         | 12,339       | —             |
| Other (income) expense, net                                       | (153 )              | (1,320 )   | 6,677                             | —            | 5,204         |
| Income before income taxes  | 75                  | 6,766      | 13,651                            | (12,339 )    | 8,153         |
| Provision for (benefit from) income taxes                         | —                   | (5,299 )   | 3,130                             | 11,791       | 9,622         |
| Income (loss) from continuing operations                          | 75                  | 12,065     | 10,521                            | (24,130 )    | (1,469 )      |
| Income from discontinued operations, net of tax                   | —                   | —          | 1,544                             | —            | 1,544         |
| Net income  | 75                  | 12,065     | 12,065                            | (24,130 )    | 75            |
| Other comprehensive loss  | (8,123 )            | (8,123 )   | (8,123 )                          | 16,246       | (8,123 )      |
| Comprehensive income (loss) attributable to Exterran stockholders | \$ (8,048 )         | \$ 3,942   | \$ 3,942                          | \$ (7,884 )  | \$ (8,048 )   |

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)  
 Three Months Ended June 30, 2017  
 (In thousands)

|   | Parent<br>Guarantor | Issuers     | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidation |
|---|---------------------|-------------|-----------------------------------|--------------|---------------|
| Revenues  | \$ —                | \$227,755   | \$ 124,597                        | \$ (34,651 ) | \$ 317,701    |
| Cost of sales (excluding depreciation and amortization expense)   | —                   | 193,938     | 70,707                            | (34,651 )    | 229,994       |
| Selling, general and administrative                               | 209                 | 21,910      | 22,445                            | —            | 44,564        |
| Depreciation and amortization                                     | —                   | 8,940       | 17,408                            | —            | 26,348        |
| Restatement related recoveries, net                               | —                   | (1,143 )    | (15 )                             | —            | (1,158 )      |
| Restructuring and other charges                                   | —                   | (1,376 )    | 1,686                             | —            | 310           |
| Interest expense  | —                   | 10,061      | 2,321                             | —            | 12,382        |
| Intercompany charges, net   | —                   | 1,521       | (1,521 )                          | —            | —             |
| Equity in (income) loss of affiliates                             | (3,753 )            | (3,678 )    | 7,257                             | 174          | —             |
| Other (income) expense, net                                       | —                   | 146         | 2,585                             | —            | 2,731         |
| Income (loss) before income taxes                                 | 3,544               | (2,564 )    | 1,724                             | (174 )       | 2,530         |
| Provision for (benefit from) income taxes                         | —                   | 1,017       | 5,676                             | (7,333 )     | (640 )        |
| Income (loss) from continuing operations                          | 3,544               | (3,581 )    | (3,952 )                          | 7,159        | 3,170         |
| Income from discontinued operations, net of tax                   | —                   | —           | 374                               | —            | 374           |
| Net income (loss)   | 3,544               | (3,581 )    | (3,578 )                          | 7,159        | 3,544         |
| Other comprehensive loss  | (2,669 )            | (2,669 )    | (2,669 )                          | 5,338        | (2,669 )      |
| Comprehensive income (loss) attributable to Exterran stockholders | \$ 875              | \$ (6,250 ) | \$ (6,247 )                       | \$ 12,497    | \$ 875        |

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)  
Six Months Ended June 30, 2018  
(In thousands)

|   | Parent<br>Guarantor | Issuers   | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidation |
|---|---------------------|-----------|-----------------------------------|--------------|---------------|
| Revenues  | \$ —                | \$498,649 | \$ 239,692                        | \$ (44,487 ) | \$ 693,854    |
| Cost of sales (excluding depreciation and amortization expense)   | —                   | 416,753   | 130,192                           | (44,487 )    | 502,458       |
| Selling, general and administrative                               | 635                 | 42,117    | 45,872                            | —            | 88,624        |
| Depreciation and amortization                                     | —                   | 18,015    | 43,198                            | —            | 61,213        |
| Long-lived asset impairment                                       | —                   | 1,804     | —                                 | —            | 1,804         |
| Restatement related charges, net                                  | —                   | 24        | —                                 | —            | 24            |
| Restructuring and other charges                                   | —                   | —         | 1,422                             | —            | 1,422         |
| Interest expense  | —                   | 12,497    | 1,605                             | —            | 14,102        |
| Intercompany charges, net   | —                   | 3,073     | (3,073 )                          | —            | —             |
| Equity in income of affiliates                                    | (5,894 )            | (9,631 )  | (9,842 )                          | 25,367       | —             |
| Other (income) expense, net                                       | (153 )              | (1,369 )  | 8,146                             | —            | 6,624         |
| Income before income taxes  | 5,412               | 15,366    | 22,172                            | (25,367 )    | 17,583        |
| Provision for (benefit from) income taxes                         | —                   | (4,107 )  | 5,642                             | 13,579       | 15,114        |
| Income from continuing operations                                 | 5,412               | 19,473    | 16,530                            | (38,946 )    | 2,469         |
| Income from discontinued operations, net of tax                   | —                   | —         | 2,943                             | —            | 2,943         |
| Net income  | 5,412               | 19,473    | 19,473                            | (38,946 )    | 5,412         |
| Other comprehensive loss  | (7,366 )            | (7,366 )  | (7,366 )                          | 14,732       | (7,366 )      |
| Comprehensive income (loss) attributable to Exterran stockholders | \$ (1,954 )         | \$ 12,107 | \$ 12,107                         | \$ (24,214 ) | \$ (1,954 )   |

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## Condensed Consolidating Statement of Operations and Comprehensive Income

Six Months Ended June 30, 2017

(In thousands)

|   | Parent<br>Guarantor | Issuers    | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidation |
|---|---------------------|------------|-----------------------------------|--------------|---------------|
| Revenues  | \$ —                | \$ 378,112 | \$ 241,665                        | \$ (56,651 ) | \$ 563,126    |
| Cost of sales (excluding depreciation and amortization expense) | —                   | 321,106    | 132,486                           | (56,651 )    | 396,941       |
| Selling, general and administrative                             | 1,701               | 43,393     | 43,881                            | —            | 88,975        |
| Depreciation and amortization                                   | —                   | 16,740     | 34,360                            | —            | 51,100        |
| Restatement related charges (recoveries), net                   | —                   | 1,029      | (15 )                             | —            | 1,014         |
| Restructuring and other charges                                 | —                   | 1,679      | 939                               | —            | 2,618         |
| Interest expense  | —                   | 17,272     | 2,197                             | —            | 19,469        |
| Intercompany charges, net                                       | —                   | 3,653      | (3,653 )                          | —            | —             |
| Equity in (income) loss of affiliates                           | (25,566 )           | (61,469 )  | 27,913                            | 59,122       | —             |
| Other (income) expense, net                                     | —                   | (2,007 )   | 2,919                             | —            | 912           |
| Income before income taxes                                      | 23,865              | 36,716     | 638                               | (59,122 )    | 2,097         |
| Provision for income taxes                                      | —                   | 3,161      | 100                               | 7,989        | 11,250        |
| Income (loss) from continuing operations                        | 23,865              | 33,555     | 538                               | (67,111 )    | (9,153 )      |
| Income from discontinued operations, net of tax                 | —                   | —          | 33,018                            | —            | 33,018        |
| Net income  | 23,865              | 33,555     | 33,556                            | (67,111 )    | 23,865        |
| Other comprehensive loss  | (1,026 )            | (1,026 )   | (1,026 )                          | 2,052        | (1,026 )      |
| Comprehensive income attributable to Exterran stockholders      | \$ 22,839           | \$ 32,529  | \$ 32,530                         | \$ (65,059 ) | \$ 22,839     |

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Condensed Consolidating Statement of Cash Flows  
Six Months Ended June 30, 2018  
(In thousands)

|  | Parent<br>Guarantor | Issuers    | Non-<br>Guarantor<br>Subsidiaries | Elimination | Consolidation |
|--|---------------------|------------|-----------------------------------|-------------|---------------|
| Cash flows from operating activities:  |                     |            |                                   |             |               |
| Net cash provided by (used in) continuing operations                             | \$ (279 )           | \$(33,278) | \$ 61,697                         | \$ —        | \$ 28,140     |
| Net cash provided by discontinued operations                                     | —                   | —          | 881                               | —           | 881           |
| Net cash provided by (used in) operating activities                              | (279 )              | (33,278 )  | 62,578                            | —           | 29,021        |
| Cash flows from investing activities:  |                     |            |                                   |             |               |
| Capital expenditures   | —                   | (27,737 )  | (66,497 )                         | —           | (94,234 )     |
| Proceeds from sale of property, plant and equipment                              | —                   | 45         | 2,327                             | —           | 2,372         |
| Proceeds from sale of business   | —                   | 5,000      | —                                 | —           | 5,000         |
| Intercompany transfers   | —                   | 34         | (3,272 )                          | 3,238       | —             |
| Net cash used in continuing operations   | —                   | (22,658 )  | (67,442 )                         | 3,238       | (86,862 )     |
| Net cash provided by discontinued operations                                     | —                   | —          | 66                                | —           | 66            |
| Net cash used in investing activities  | —                   | (22,658 )  | (67,376 )                         | 3,238       | (86,796 )     |
| Cash flows from financing activities:  |                     |            |                                   |             |               |
| Proceeds from borrowings of debt   | —                   | 255,000    | —                                 | —           | 255,000       |
| Repayments of debt   | —                   | (222,758 ) | —                                 | —           | (222,758 )    |
| Intercompany transfers   | (34 )               | 3,272      | —                                 | (3,238)     | —             |
| Payments for debt issuance costs   | —                   | (47 )      | —                                 | —           | (47 )         |
| Proceeds from stock options exercised  | —                   | 563        | —                                 | —           | 563           |
| Purchases of treasury stock  | —                   | (3,481 )   | —                                 | —           | (3,481 )      |
| Net cash provided by (used in) financing activities                              | (34 )               | 32,549     | —                                 | (3,238)     | 29,277        |
| Effect of exchange rate changes on cash, cash equivalents<br>and restricted cash | —                   | —          | (2,455 )                          | —           | (2,455 )      |
| Net decrease in cash, cash equivalents and restricted cash                       | (313 )              | (23,387 )  | (7,253 )                          | —           | (30,953 )     |
| Cash, cash equivalents and restricted cash at beginning of<br>period             | 397                 | 24,195     | 25,099                            | —           | 49,691        |
| Cash, cash equivalents and restricted cash at end of period                      | \$ 84               | \$ 808     | \$ 17,846                         | \$ —        | \$ 18,738     |

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Condensed Consolidating Statement of Cash Flows  
Six Months Ended June 30, 2017  
(In thousands)

|   | Parent<br>Guarantor | Issuers   | Non-<br>Guarantor<br>Subsidiaries | Elimination | Consolidation |
|---|---------------------|-----------|-----------------------------------|-------------|---------------|
| Cash flows from operating activities:   |                     |           |                                   |             |               |
| Net cash provided by (used in) continuing operations                          | \$ (286 )           | \$ 18,091 | \$ 37,799                         | \$ —        | \$ 55,604     |
| Net cash provided by discontinued operations                                  | —                   | —         | 2,498                             | —           | 2,498         |
| Net cash provided by (used in) operating activities                           | (286 )              | 18,091    | 40,297                            | —           | 58,102        |
| Cash flows from investing activities:   |                     |           |                                   |             |               |
| Capital expenditures  | —                   | (17,999 ) | (26,217 )                         | —           | (44,216 )     |
| Proceeds from sale of property, plant and equipment                           | —                   | 1,930     | 4,497                             | —           | 6,427         |
| Proceeds from sale of business  | —                   | 894       | —                                 | —           | 894           |
| Intercompany transfers  | —                   | (757 )    | (36,494 )                         | 37,251      | —             |
| Net cash used in continuing operations  | —                   | (15,932 ) | (58,214 )                         | 37,251      | (36,895 )     |
| Net cash provided by discontinued operations                                  | —                   | —         | 19,164                            | —           | 19,164        |
| Net cash used in investing activities   | —                   | (15,932 ) | (39,050 )                         | 37,251      | (17,731 )     |
| Cash flows from financing activities:   |                     |           |                                   |             |               |
| Proceeds from borrowings of debt  | —                   | 488,000   | —                                 | —           | 488,000       |
| Repayments of debt  | —                   | (463,877) | —                                 | —           | (463,877 )    |
| Intercompany transfers  | 757                 | 36,494    | —                                 | (37,251)    | —             |
| Cash transfer to Archrock, Inc.   | —                   | (44,720 ) | —                                 | —           | (44,720 )     |
| Payments for debt issuance costs  | —                   | (7,606 )  | —                                 | —           | (7,606 )      |
| Proceeds from stock options exercised   | —                   | 684       | —                                 | —           | 684           |
| Purchases of treasury stock   | —                   | (3,124 )  | —                                 | —           | (3,124 )      |
| Net cash provided by (used in) financing activities                           | 757                 | 5,851     | —                                 | (37,251)    | (30,643 )     |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | —                   | —         | (42 )                             | —           | (42 )         |
| Net increase in cash, cash equivalents and restricted cash                    | 471                 | 8,010     | 1,205                             | —           | 9,686         |
| Cash, cash equivalents and restricted cash at beginning of period             | 131                 | 16,645    | 19,573                            | —           | 36,349        |
| Cash, cash equivalents and restricted cash at end of period                   | \$ 602              | \$ 24,655 | \$ 20,778                         | \$ —        | \$ 46,035     |



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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and the notes thereto included in the Condensed Consolidated Financial Statements in Part I, Item 1 ("Financial Statements") of this report and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017.

Disclosure Regarding Forward-Looking Statements

This report contains "forward-looking statements" intended to qualify for the safe harbors 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 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, without limitation, statements regarding our business growth strategy and projected costs; future financial position; the sufficiency of available cash flows to fund continuing operations; the expected amount of our capital expenditures; expenditures related to the current governmental investigation; anticipated cost savings, future revenue, gross margin and other financial or operational measures related to our business and our primary business segments; the future value of our equipment and non-consolidated affiliates; and plans and objectives of our management for our future operations. You can identify many of these statements by looking for words such as "believe," "expect," "intend," "project," "anticipate," "estimate," "will continue" or similar words or the negative thereof.

Such forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will prove to be correct. Known material factors that could cause our actual results to differ materially from the expectations reflected in these forward-looking statements include the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2017, and those set forth from time to time in our filings with the Securities and Exchange Commission ("SEC"), which are available through our website at [www.exterran.com](http://www.exterran.com) and through the SEC's website at [www.sec.gov](http://www.sec.gov), as well as the following risks and uncertainties:

- conditions in the oil and natural gas industry, including a sustained imbalance in the level of supply or demand for oil or natural gas or a sustained low price of oil or natural gas, which could depress or reduce the demand or pricing for our natural gas compression and oil and natural gas production and processing equipment and services;
- reduced profit margins or the loss of market share resulting from competition or the introduction of competing technologies by other companies;
- economic or political conditions in the countries in which we do business, including civil developments such as uprisings, riots, terrorism, kidnappings, violence associated with drug cartels, legislative changes and the expropriation, confiscation or nationalization of property without fair compensation;
- changes in currency exchange rates, including the risk of currency devaluations by foreign governments, and restrictions on currency repatriation;
- risks associated with cyber-based attacks or network security breaches;
- changes in international trade relationships, including the imposition of trade restrictions or tariffs relating to any materials or products (such as aluminum and steel) used in the operation of our business;
- risks associated with our operations, such as equipment defects, equipment malfunctions and natural disasters;
- the risk that counterparties will not perform their obligations under our financial instruments;
- the financial condition of our customers;
- our ability to timely and cost-effectively obtain components necessary to conduct our business;
- employment and workforce factors, including our ability to hire, train and retain key employees;
- our ability to implement our business and financial objectives, including:

- winning profitable new business;
- timely and cost-effective execution of projects;
- enhancing our asset utilization, particularly with respect to our fleet of compressors;
- integrating acquired businesses;
- generating sufficient cash to satisfy our operating needs, existing capital commitments and other contractual cash obligations, including our debt obligations; and
- accessing the financial markets at an acceptable cost;

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our ability to accurately estimate our costs and time required under our fixed price contracts;  
liability related to the use of our products and services;  
changes in governmental safety, health, environmental or other regulations, which could require us to make significant expenditures;  
the results of governmental actions relating to the current investigation; and  
our level of indebtedness and ability to fund our business.

All forward-looking statements included in this report are based on information available to us on the date of this report. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this report.

## General

Exterran Corporation (together with its subsidiaries, “Exterran Corporation,” “our,” “we” or “us”), a Delaware corporation formed in March 2015, is a global systems and process company offering solutions in the oil, gas, water and power markets. We are a leader in natural gas processing and treatment and compression products and services, providing critical midstream infrastructure solutions to customers throughout the world. Outside the United States of America (“U.S.”), we are a leading provider of full-service natural gas contract compression, and a supplier of aftermarket parts and services. Our manufacturing facilities are located in the U.S., Singapore and the United Arab Emirates.

We provide our products and services to a global customer base consisting of companies engaged in all aspects of the oil and natural gas industry, including large integrated oil and natural gas companies, national oil and natural gas companies, independent oil and natural gas producers and oil and natural gas processors, gatherers and pipeline operators. We operate in three primary business lines: contract operations, aftermarket services and product sales. The nature and inherent interactions between and among our business lines provide us with opportunities to cross-sell or offer integrated product and service solutions to our customers.

In our contract operations business line, we own and operate natural gas compression equipment and crude oil and natural gas production and processing equipment on behalf of our customers outside of the U.S. In our aftermarket services business line, we sell parts and components and provide operations, maintenance, overhaul, upgrade, commissioning and reconfiguration services to customers who own their own compression, production, processing, treating and related equipment. In our product sales business line, we design, engineer, manufacture, install and sell natural gas compression packages as well as equipment used in the treating and processing of crude oil and natural gas to our customers throughout the world and for use in our contract operations business line. We also offer our customers, on either a contract operations basis or a sale basis, the engineering, design, project management, procurement and construction services necessary to incorporate our products into production, processing and compression facilities, which we refer to as integrated projects.

Our chief operating decision maker manages business operations, evaluates performance and allocates resources based on the Company’s three primary business lines, which are also referred to as our segments. In order to more efficiently and effectively identify and serve our customer needs, we classify our world-wide operations into four geographic regions. The North America region is primarily comprised of our operations in Mexico and the U.S. The Latin America region is primarily comprised of our operations in Argentina, Bolivia and Brazil. The Middle East and Africa region is primarily comprised of our operations in Bahrain, Iraq, Oman, Nigeria and the United Arab Emirates. The Asia Pacific region is primarily comprised of our operations in China, Indonesia, Thailand and Singapore.

On November 3, 2015, Archrock, Inc. (named Exterran Holdings, Inc. prior to November 3, 2015) (“Archrock”) completed the spin-off (the “Spin-off”) of its international contract operations, international aftermarket services and global fabrication businesses into an independent, publicly traded company named Exterran Corporation.

We refer to the condensed consolidated financial statements collectively as “financial statements,” and individually as “balance sheets,” “statements of operations,” “statements of comprehensive income,” “statements of stockholders’ equity” and “statements of cash flows” herein.

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### Overview

### Industry Conditions and Trends

Our business environment and corresponding operating results are affected by the level of energy industry spending for the exploration, development and production of oil and natural gas reserves. Spending by oil and natural gas exploration and production companies is dependent upon these companies' forecasts regarding the expected future supply, demand and pricing of oil and natural gas products as well as their estimates of risk-adjusted costs to find, develop and produce reserves. Although we believe our contract operations business, and to a lesser extent our product sales business, is typically less impacted by short-term commodity prices than certain other energy products and service providers, changes in oil and natural gas exploration and production spending normally result in changes in demand for our products and services.

Industry observers anticipate that commodity prices and customer spending should continue to increase in 2018 due to the predicted strong global demand for hydrocarbons, including increased demand for liquefied natural gas. Geographically, North America is expected to see the largest increase in industry spending with international markets anticipated to grow for the first time in four years, albeit at modest levels.

However, customer cash flows and returns on capital could drive customer investment priorities. Industry observers believe shareholders are encouraging management teams of energy producers to focus operational and compensation strategies on returns and cash flow generation rather than solely on production growth. To accomplish these strategies, industry observers believe that energy producers would need to better prioritize capital spending such that cash required for their investments would not exceed cash generated from their operating cash flows. This could impact resource allocation and ultimately the amount of new projects and capital spending by our customers.

### Our Performance Trends and Outlook

Our revenue, earnings and financial position are affected by, among other things, market conditions that impact demand and pricing for natural gas compression and oil and natural gas production and processing and our customers' decisions to use our products and services, use our competitors' products and services or own and operate the equipment themselves.

Historically, oil, natural gas and natural gas liquids and the level of drilling and exploration activity in North America have been volatile. The Henry Hub spot price for natural gas was \$2.96 per MMBtu at June 30, 2018, which was 20% and 1% lower than prices at December 31, 2017 and June 30, 2017, respectively, and the U.S. natural gas liquid composite price was \$7.49 per MMBtu for the month of April 2018, which was 4% lower than the price for the month of December 2017 and 31% higher than prices for the month of June 2017. In addition, the West Texas Intermediate crude oil spot price as of June 30, 2018 was 23% and 61% higher than prices at December 31, 2017 and June 30, 2017, respectively. Increased stability of oil, natural gas and natural gas liquids prices in 2017 and thus far in 2018 has encouraged increased customer spending and investments in equipment that have led to increased activity and bookings in North America. Booking activity levels for our manufactured products in North America during the three months ended June 30, 2018 were \$232.3 million, which represents an increase of 125% and a decrease of 10% compared to the three months ended December 31, 2017 and June 30, 2017, respectively, and our North America product sales backlog as of June 30, 2018 was \$428.1 million, which represents an increase of 2% and a decrease of 4% compared to December 31, 2017 and June 30, 2017, respectively. Additionally, our North America contract operations services backlog as of June 30, 2018 was approximately \$75 million. We believe that recent booking levels reflect the expectation that commodity prices will continue to remain above the low levels experienced in early 2016.

We expect that industry spending in international markets will increase in 2018. Longer-term fundamentals in our international markets partially depends on international oil and gas infrastructure projects, many of which are based on longer-term plans of our customers that can be driven by their local market demand and local pricing for natural gas. As a result, we believe our international customers make decisions based on longer-term fundamentals that may be less tied to near term commodity prices than our North American customers. Over the long term, we believe the demand for our products and services in international markets will continue, and we expect to have opportunities to grow our international businesses. Booking activity levels for our manufactured products in international markets during the three months ended June 30, 2018 were \$207.4 million, which represents increases of 1,996% and 789% compared to the three months ended December 31, 2017 and June 30, 2017, respectively, and our international product sales backlog as of June 30, 2018 was \$206.8 million, which represents increases of 420% and 233% compared to December 31, 2017 and June 30, 2017, respectively. Additionally, as a result of recent booking activity levels for our contract operations services, our international contract operations services backlog as of June 30, 2018 grew to approximately \$1.3 billion.

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Aggregate booking activity levels for our manufactured products in North America and international markets during the three months ended June 30, 2018 were \$439.7 million, which represents increases of 289% and 57% compared to the three months ended December 31, 2017 and June 30, 2017, respectively. Fluctuations in the size and timing of customers' requests for bid proposals and awards of new contracts tend to create variability in booking activity levels from period to period.

The timing of any change in activity levels by our customers is difficult to predict. As a result, our ability to project the anticipated activity level for our business, and particularly our product sales segment, is limited. Throughout 2017 and thus far in 2018, we experienced an increase in product sales bookings. However, volatility in commodity prices could delay investments by our customers in significant projects, which could result in a material adverse effect on our business, financial condition, results of operations and cash flows.

Our level of capital spending largely depends on the demand for our contract operations services and the equipment required to provide such services to our customers. Based on the demand we see for contract operations, we anticipate investing more capital in our contract operations business in 2018 than we did in 2017. The increased investment during 2018 is driven by several large multi-year projects contracted in 2017 and 2018 that are scheduled to start earning revenue in 2018 and 2019.

## Operating Highlights

The following table summarizes our product sales backlog (in thousands):

|                                     | June 30,<br>2018 | December 31,<br>2017 | June 30,<br>2017 |
|-------------------------------------|------------------|----------------------|------------------|
| Product Sales Backlog:              |                  |                      |                  |
| Compression equipment               | \$294,498        | \$ 254,745           | \$248,147        |
| Processing and treating equipment   | 330,654          | 178,814              | 200,940          |
| Production equipment <sup>(1)</sup> | —                | 14,138               | 36,782           |
| Other product sales                 | 9,741            | 13,349               | 20,662           |
| Total product sales backlog         | \$634,893        | \$ 461,046           | \$506,531        |

(1) In June 2018, we completed the sale of our North America production equipment assets ("PEQ assets"), which included \$12.0 million in unsatisfied performance obligations (commonly referred to as backlog).

## Financial Results of Operations

## Summary of Results

As discussed in Note 3 to the Financial Statements, the results from continuing operations for all periods presented exclude the results of our Venezuelan contract operations and Belleli EPC business. Those results are reflected in discontinued operations for all periods presented.

## Revenue.

Revenue during the three months ended June 30, 2018 and 2017 was \$343.5 million and \$317.7 million, respectively. The increase in revenue during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was caused by revenue increases in our product sales and aftermarket services segments, partially offset by a decrease in our contract operations segment.

Revenue during the six months ended June 30, 2018 and 2017 was \$693.9 million and \$563.1 million, respectively. The increase in revenue during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was caused by revenue increases in all three of our segments with a significant increase in revenue in our product sales segment.

Net income.

We generated net income of \$0.1 million and \$3.5 million during the three months ended June 30, 2018 and 2017, respectively. The decrease in net income during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was primarily due to an increase in income tax expense, an increase in depreciation and amortization expense and a loss of \$1.7 million on the sale of our PEQ assets in the current year period. These activities were partially offset by an increase in gross margin for our product sales segment and a decrease in interest expense.



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We generated net income of \$5.4 million and \$23.9 million during the six months ended June 30, 2018 and 2017, respectively. The decrease in net income during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily due to a decrease in income from discontinued operations, net of tax, an increase in depreciation and amortization expense, an increase in income tax expense and a loss of \$1.7 million on the sale of our PEQ assets in the current year period. These activities were partially offset by an increase in gross margin for our product sales segment and a decrease in interest expense. Net income during the six months ended June 30, 2018 and 2017 included income from discontinued operations, net of tax, of \$2.9 million and \$33.0 million, respectively. Income for discontinued operations, net of tax, for the six months ended June 30, 2017 was positively impacted by recoveries from liquidated damages releases and customer approved change orders related to Belleli EPC.

EBITDA, as adjusted.

Our EBITDA, as adjusted, was \$51.2 million and \$43.3 million during the three months ended June 30, 2018 and 2017, respectively. EBITDA, as adjusted, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 increased primarily due to an increase in gross margin for our product sales segment.

Our EBITDA, as adjusted, was \$101.9 million and \$77.9 million during the six months ended June 30, 2018 and 2017, respectively. EBITDA, as adjusted, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 increased primarily due to an increase in gross margin for our product sales segment. EBITDA, as adjusted, is a non-GAAP financial measure. For a reconciliation of EBITDA, as adjusted, to net income (loss), its most directly comparable financial measure calculated and presented in accordance with GAAP, please read “— Non-GAAP Financial Measures” included elsewhere in this Quarterly Report.

The Three Months Ended June 30, 2018 Compared to the Three Months Ended June 30, 2017

Contract Operations  
(dollars in thousands)

|   | Three Months Ended<br>June 30, |          |           |             |   |
|---|--------------------------------|----------|-----------|-------------|---|
|   | 2018                           | 2017     | Change    | %<br>Change |   |
| Revenue   | \$91,487                       | \$95,341 | \$(3,854) | (4 )%       |   |
| Cost of sales (excluding depreciation and amortization expense) | 32,372                         | 34,691   | (2,319 )  | (7 )%       |   |
| Gross margin  | \$59,115                       | \$60,650 | \$(1,535) | (3 )%       |   |
| Gross margin percentage <sup>(1)</sup>                          | 65                             | % 64     | % 1       | % 2         | % |

(1) Defined as gross margin divided by revenue.

The decrease in revenue during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was primarily due to decreases in revenue of \$4.3 million and \$0.8 million in the North America region and Latin America region, respectively, partially offset by an increase in revenue of \$1.3 million in the Middle East and Africa region. The decrease in the North America region was primarily driven by renegotiations on a contract extension that resulted in lower revenue in the current year period and a project that terminated operations in the first quarter of 2018. The increase in the Middle East and Africa region was primarily driven by a \$2.4 million increase in revenue resulting from the start-up of projects that were not operating in the prior year period. Gross margin decreased during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 primarily due to the revenue decreases explained above. Gross margin percentage during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 remained relatively flat.



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(dollars in thousands)

|   | Three Months Ended<br>June 30, |          |         |             |
|---|--------------------------------|----------|---------|-------------|
|   | 2018                           | 2017     | Change  | %<br>Change |
| Revenue   | \$32,267                       | \$24,244 | \$8,023 | 33 %        |
| Cost of sales (excluding depreciation and amortization expense) | 23,706                         | 17,278   | 6,428   | 37 %        |
| Gross margin  | \$8,561                        | \$6,966  | \$1,595 | 23 %        |
| Gross margin percentage   | 27 %                           | 29 %     | (2 )%   | (7 )%       |

The increase in revenue during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was primarily due to increases in revenue of \$5.1 million and \$1.8 million in the Middle East and Africa region and Latin America region, respectively. The increase in revenue in the Middle East and Africa region was primarily driven by an increase in part sales. The increase in the Latin America region was primarily driven by an increase in commissioning services. Gross margin increased during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 primarily due to the revenue increase explained above. The decrease in gross margin percentage during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was primarily driven by an increase in part sales during the current year period.

Product Sales  
(dollars in thousands)

|   | Three Months Ended<br>June 30, |           |          |             |
|---|--------------------------------|-----------|----------|-------------|
|   | 2018                           | 2017      | Change   | %<br>Change |
| Revenue   | \$219,717                      | \$198,116 | \$21,601 | 11 %        |
| Cost of sales (excluding depreciation and amortization expense) | 191,762                        | 178,025   | 13,737   | 8 %         |
| Gross margin  | \$27,955                       | \$20,091  | \$7,864  | 39 %        |
| Gross margin percentage   | 13 %                           | 10 %      | 3 %      | 30 %        |

The increase in revenue during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was primarily due to increases in revenue of \$28.9 million in the North America region and \$5.3 million in the Asia Pacific region, partially offset by a decrease in revenue of \$13.0 million in the Middle East and Africa region. The increase in revenue in the North America region was primarily due to increases of \$27.7 million and \$9.1 million in processing and treating equipment revenue and compression equipment revenue, respectively, partially offset by a decrease of \$7.9 million in production equipment revenue. The increase in revenue in the Asia Pacific region was primarily due to an increase of \$5.5 million in compression equipment revenue. The decrease in revenue in the Middle East and Africa region was primarily due to a decrease of \$11.9 million in processing and treating equipment revenue. Gross margin and gross margin percentage increased during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 due to the revenue increase explained above and a shift in product mix in the North America region during the current year period.

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(dollars in thousands)

|   | Three Months<br>Ended<br>June 30, |          | Change  | %<br>Change |   |
|---|-----------------------------------|----------|---------|-------------|---|
|   | 2018                              | 2017     |         |             |   |
| Selling, general and administrative           | \$44,382                          | \$44,564 | \$(182) | —           | % |
| Depreciation and amortization                 | 30,184                            | 26,348   | 3,836   | 15          | % |
| Restatement related charges (recoveries), net | (597 )                            | (1,158 ) | 561     | (48 )       | % |
| Restructuring and other charges               | 1,422                             | 310      | 1,112   | 359         | % |
| Interest expense                              | 6,883                             | 12,382   | (5,499) | (44 )       | % |
| Other (income) expense, net                   | 5,204                             | 2,731    | 2,473   | 91          | % |

## Selling, general and administrative

Selling, general and administrative (“SG&A”) expense remained relatively flat during the three months ended June 30, 2018 compared to the three months ended June 30, 2017. SG&A expense as a percentage of revenue was 13% and 14% during the three months ended June 30, 2018 and 2017, respectively.

## Depreciation and amortization

Depreciation and amortization expense during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 increased primarily due to an increase in depreciation expense of \$2.0 million for our compression equipment driven by policy changes relating to the useful lives and salvage values made in the fourth quarter of 2017. Additionally, depreciation expense of capitalized installation costs increased by \$1.1 million primarily due to additional depreciation on projects that were not operating in the prior year period. Capitalized installation costs, included, among other things, civil engineering, piping, electrical instrumentation and project management costs.

## Restatement related charges (recoveries), net

As discussed in Note 10 to the Financial Statements, during the first quarter of 2016, our senior management identified errors relating to the application of percentage-of-completion accounting principles to specific Belleli EPC product sales projects. During the three months ended June 30, 2017, we incurred \$1.6 million of external costs associated with an SEC investigation and remediation activities related to the restatement of our financial statements. During the three months ended June 30, 2018 and 2017, we recorded recoveries from Archrock pursuant to the separation and distribution agreement of \$0.6 million and \$2.8 million, respectively, for previously incurred restatement related costs.

## Restructuring and other charges

In the second quarter of 2018, we initiated a relocation plan in the North America region to better align our contract operations business with our customers. As a result of this plan, during the three months ended June 30, 2018, we incurred restructuring and other charges of \$1.4 million primarily related to employee termination benefits.

In the second quarter of 2015, we announced a cost reduction plan, primarily focused on workforce reductions and the reorganization of certain facilities. As a result of this plan, during the three months ended June 30, 2017, we incurred restructuring and other charges of \$0.4 million primarily related to employee termination benefits. Additionally, during the three months ended June 30, 2017, we recorded a restructuring benefit of \$0.1 million related to changes in estimated retention awards to be paid for certain employees associated with the Spin-off. The charges incurred in conjunction with the relocation plan, cost reduction plan and Spin-off are included in restructuring and other charges

in our statements of operations. See Note 11 to the Financial Statements for further discussion of these charges.

Interest expense

The decrease in interest expense during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was primarily due to interest expense of \$2.4 million recorded for the settling of non-income-based tax debt during the prior year period in connection with the Brazilian Tax Regularization Program, \$1.7 million of unamortized deferred financing costs expensed in prior year period resulting from the repayment of the term loan facility and an increase in capitalized interest resulting from increased construction activities during the current year period. During the three months ended June 30, 2018 and 2017, the average daily outstanding borrowings of long-term debt were \$436.7 million and \$375.3 million, respectively. For further discussion on the Brazilian Tax Regularization Program, see Note 12 to the Financial Statements.

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## Other (income) expense, net

The change in other (income) expense, net, was primarily due to foreign currency losses of \$3.8 million and \$2.2 million during the three months ended June 30, 2018 and 2017, respectively. Our foreign currency losses included translation losses of \$3.5 million and \$1.4 million during the three months ended June 30, 2018 and 2017, respectively, related to the currency remeasurement of our foreign subsidiaries' non-functional currency denominated intercompany obligations. Other (income) expense, net, also included a loss of \$1.7 million on the sale of our PEQ assets in the current year period and penalties of \$1.5 million incurred for the settling of non-income-based tax debt during the prior year period in connection with the Brazilian Tax Regularization Program discussed above. For further discussion on the sale of our PEQ assets, see Note 6 to the Financial Statements.

## Income Taxes

(dollars in thousands)

|   | Three Months<br>Ended<br>June 30, |          |          |             |
|---|-----------------------------------|----------|----------|-------------|
|   | 2018                              | 2017     | Change   | %<br>Change |
| Provision for (benefit from) income taxes | \$9,622                           | \$(640)  | \$10,262 | (1,603)%    |
| Effective tax rate                        | 118.0 %                           | (25.3 )% | 143.3 %  | (566 )%     |

Our income tax expense for the three months ended June 30, 2018 included a \$5.7 million tax expense related to income tax on income in Argentina recorded as a result of foreign exchange rate movements. Our income tax expense for the three months ended June 30, 2017 included an \$11.9 million income tax benefit attributable to the reversal of valuation allowances against certain deferred tax assets related to income tax loss carryforwards that were utilized under the Brazilian Tax Regularization Program and a \$5.7 million valuation allowance recorded against U.S. deferred tax assets. Our effective tax rate is impacted by valuation allowances recorded against loss carryforwards in the U.S. and certain other jurisdictions, foreign withholding taxes and changes in foreign currency exchange rates.

## Discontinued Operations

(dollars in thousands)

|   | Three<br>Months<br>Ended<br>June 30, |       |         |             |
|---|--------------------------------------|-------|---------|-------------|
|   | 2018                                 | 2017  | Change  | %<br>Change |
| Income from discontinued operations, net of tax | \$1,544                              | \$374 | \$1,170 | 313 %       |

Income from discontinued operations, net of tax, includes our Venezuelan subsidiary's operations that were expropriated in June 2009, including compensation for expropriation, and our Belleli EPC business.

Income from discontinued operations, net of tax, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 increased primarily due to a \$1.2 million increase in income from Belleli EPC. The increase in income from Belleli EPC was primarily driven by higher overall costs in the prior year period and foreign currency gains during the current year period. For further details on our discontinued operations, see Note 3 to the Financial Statements.



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## The Six Months Ended June 30, 2018 Compared to the Six Months Ended June 30, 2017

Contract Operations  
(dollars in thousands)

|   | Six Months Ended<br>June 30, |            |           |             |
|---|------------------------------|------------|-----------|-------------|
|   | 2018                         | 2017       | Change    | %<br>Change |
| Revenue   | \$ 187,980                   | \$ 187,386 | \$ 594    | — %         |
| Cost of sales (excluding depreciation and amortization expense) | 67,757                       | 65,489     | 2,268     | 3 %         |
| Gross margin  | \$ 120,223                   | \$ 121,897 | \$(1,674) | (1 )%       |
| Gross margin percentage <sup>(1)</sup>                          | 64                           | % 65       | % (1      | )% (2 )%    |

(1) Defined as gross margin divided by revenue.

The increase in revenue during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily due to increases in revenue of \$7.3 million and \$2.5 million in the Middle East and Africa region and Asia Pacific region, respectively, partially offset by decreases in revenue of \$7.2 million and \$2.0 million in the North America region and Latin America region, respectively. The increase in the Middle East and Africa region was primarily driven by a \$5.9 million increase in revenue resulting from the start-up of projects that were not operating in the prior year period and a \$3.4 million increase in revenue from the sale of equipment pursuant to a customer exercised purchase option. The increase in revenue in the Asia Pacific region was primarily driven by a \$2.8 million recovery of an early termination fee for a contract that terminated in January 2016. The decrease of revenue in the North America region was primarily due to renegotiations on a contract extension that resulted in lower revenue in the current year period and a project that terminated operations in the first quarter of 2018. The decrease of revenue in the Latin America region was primarily driven by a \$3.8 million decrease in Argentina due to unfavorable exchange rate impacts. Gross margin decreased during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 primarily due to lower maintenance expenses in the prior year period resulting from delayed expenditures. Gross margin percentage during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 remained relatively flat.

Aftermarket Services  
(dollars in thousands)

|   | Six Months Ended<br>June 30, |           |           |             |
|---|------------------------------|-----------|-----------|-------------|
|   | 2018                         | 2017      | Change    | %<br>Change |
| Revenue   | \$ 58,638                    | \$ 46,768 | \$ 11,870 | 25 %        |
| Cost of sales (excluding depreciation and amortization expense) | 42,603                       | 33,890    | 8,713     | 26 %        |
| Gross margin  | \$ 16,035                    | \$ 12,878 | \$ 3,157  | 25 %        |
| Gross margin percentage   | 27                           | % 28      | % (1      | )% (4 )%    |

The increase in revenue during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily due to increases in revenue of \$7.2 million, \$2.7 million and \$1.4 million in the Middle East and Africa, Latin America and North America regions, respectively. The increase in revenue in the Middle East and Africa region was primarily driven by an increase in part sales. The increase in the Latin America region was primarily driven by increases in overhaul services and commissioning services. The increase in the North America region was primarily driven by increases in part sales and commissioning services. Gross margin increased during the six months ended



June 30, 2018 compared to the six months ended June 30, 2017 primarily due to the revenue increase explained above. Gross margin percentage during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 remained relatively flat.

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## Product Sales

(dollars in thousands)

|   | Six Months Ended<br>June 30, |           |           |             |
|---|------------------------------|-----------|-----------|-------------|
|   | 2018                         | 2017      | Change    | %<br>Change |
| Revenue   | \$447,236                    | \$328,972 | \$118,264 | 36 %        |
| Cost of sales (excluding depreciation and amortization expense) | 392,098                      | 297,562   | 94,536    | 32 %        |
| Gross margin  | \$55,138                     | \$31,410  | \$23,728  | 76 %        |
| Gross margin percentage   | 12                           | % 10      | % 2       | % 20 %      |

The increase in revenue during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily due to increases in revenue of \$135.3 million in the North America region and \$16.8 million in the Asia Pacific region, partially offset by a decrease in revenue of \$35.4 million in the Middle East and Africa region. The increase in revenue in the North America region was primarily due to increases of \$94.7 million and \$58.3 million in processing and treating equipment revenue and compression equipment revenue, respectively, partially offset by a decrease of \$17.5 million in production equipment revenue. The increase in revenue in the Asia Pacific region was due to an increase in compression equipment revenue. The decrease in revenue in the Middle East and Africa region was primarily due to decreases of \$21.8 million and \$12.9 million in processing and treating equipment revenue and compression equipment revenue, respectively. Gross margin and gross margin percentage increased during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 due to the revenue increase explained above and a shift in product mix in the North America region during the current year period.

## Costs and Expenses

(dollars in thousands)

|                                     | Six Months<br>Ended<br>June 30, |          |         |             |
|-------------------------------------|---------------------------------|----------|---------|-------------|
|                                     | 2018                            | 2017     | Change  | %<br>Change |
| Selling, general and administrative | \$88,624                        | \$88,975 | \$(351) | — %         |
| Depreciation and amortization       | 61,213                          | 51,100   | 10,113  | 20 %        |
| Long-lived asset impairment         | 1,804                           | —        | 1,804   | n/a         |
| Restatement related charges, net    | 24                              | 1,014    | (990)   | (98)%       |
| Restructuring and other charges     | 1,422                           | 2,618    | (1,196) | (46)%       |
| Interest expense                    | 14,102                          | 19,469   | (5,367) | (28)%       |
| Other (income) expense, net         | 6,624                           | 912      | 5,712   | 626 %       |

## Selling, general and administrative

SG&A expense remained relatively flat during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. SG&A expense as a percentage of revenue was 13% and 16% during the six months ended June 30, 2018 and 2017, respectively.

## Depreciation and amortization

Depreciation and amortization expense during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 increased primarily due to an increase in depreciation expense of \$5.1 million for our compression equipment driven by policy changes relating to the useful lives and salvage values made in the fourth quarter of 2017. Additionally, depreciation expense of capitalized installation costs increased by \$3.1 million primarily due to

additional depreciation on projects that were not operating in the prior year period. Capitalized installation costs, included, among other things, civil engineering, piping, electrical instrumentation and project management costs.

Long-lived asset impairment

In the fourth quarter of 2017, we classified certain current and long-term assets primarily related to inventory and property, plant and equipment, net, within our product sales business as assets held for sale in our balance sheets. In June 2018, we completed the sale of our PEQ assets. During the six months ended June 30, 2018, we recorded an impairment of \$1.8 million to reduce these assets to their approximate fair values based on the expected net proceeds. For further details, see Note 6 to the Financial Statements.

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## Restatement related charges, net

As discussed in Note 10 to the Financial Statements, during the first quarter of 2016, our senior management identified errors relating to the application of percentage-of-completion accounting principles to specific Belleli EPC product sales projects. During the six months ended June 30, 2018 and 2017, we incurred \$0.6 million and \$3.8 million, respectively, of external costs associated with an SEC investigation and remediation activities related to the restatement of our financial statements. During the six months ended June 30, 2018 and 2017, we recorded recoveries from Archrock pursuant to the separation and distribution agreement of \$0.6 million and \$2.8 million, respectively, for previously incurred restatement related costs.

## Restructuring and other charges

In the second quarter of 2018, we initiated a relocation plan in the North America region to better align our contract operations business with our customers. As a result of this plan, during the six months ended June 30, 2018, we incurred restructuring and other charges of \$1.4 million primarily related to employee termination benefits.

In the second quarter of 2015, we announced a cost reduction plan, primarily focused on workforce reductions and the reorganization of certain facilities. As a result of this plan, during the six months ended June 30, 2017, we incurred restructuring and other charges of \$2.4 million primarily related to employee termination benefits. Additionally, during the six months ended June 30, 2017, we incurred \$0.3 million of costs associated with the Spin-off primarily related to retention awards to certain employees. The charges incurred in conjunction with the relocation plan, cost reduction plan and Spin-off are included in restructuring and other charges in our statements of operations. See Note 11 to the Financial Statements for further discussion of these charges.

## Interest expense

The decrease in interest expense during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily due to interest expense of \$2.4 million recorded for the settling of non-income-based tax debt during the prior year period in connection with the Brazilian Tax Regularization Program, \$1.7 million of unamortized deferred financing costs expensed in prior year period resulting from the repayment of the term loan facility and an increase in capitalized interest resulting from increased construction activities during the current year period, partially offset by a higher average balance of long-term debt. During the six months ended June 30, 2018 and 2017, the average daily outstanding borrowings of long-term debt were \$431.8 million and \$363.5 million, respectively. For further discussion on the Brazilian Tax Regularization Program, see Note 12 to the Financial Statements.

## Other (income) expense, net

The change in other (income) expense, net, was primarily due to foreign currency losses of \$5.7 million and \$0.8 million during the six months ended June 30, 2018 and 2017, respectively. Our foreign currency losses during the six months ended June 30, 2018 included translation losses of \$4.1 million related to the currency remeasurement of our foreign subsidiaries' non-functional currency denominated intercompany obligations. Other (income) expense, net, also included a loss of \$1.7 million on the sale of our PEQ assets in the current year period and penalties of \$1.5 million incurred for the settling of non-income-based tax debt during the prior year period in connection with the Brazilian Tax Regularization Program discussed above. For further discussion on the sale of our PEQ assets, see Note 6 to the Financial Statements.

## Income Taxes

(dollars in thousands)

| Six Months Ended |      | Change |
|------------------|------|--------|
| 2018             | 2017 |        |
|                  |      |        |

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|                            |           |           |           | %    | Change |
|----------------------------|-----------|-----------|-----------|------|--------|
| Provision for income taxes | \$ 15,114 | \$ 11,250 | \$ 3,864  | 34   | %      |
| Effective tax rate         | 86.0      | % 536.5   | % (450.5) | (84) | %      |

Our income tax expense for the six months ended June 30, 2018 included a \$5.7 million tax expense related to income tax on income in Argentina recorded as a result of foreign exchange rate movements and a \$1.7 million valuation allowance charge against current period U.S. deferred tax assets. Our income tax expense for the six months ended June 30, 2017 included an \$11.9 million income tax benefit attributable to the reversal of valuation allowances against certain deferred tax assets related to income tax loss carryforwards that were utilized under the Brazilian Tax Regularization Program and a \$15.4 million valuation allowance recorded against U.S. deferred tax assets. Our effective tax rate is impacted by valuation allowances recorded against loss carryforwards in the U.S. and certain other jurisdictions, foreign withholding taxes and changes in foreign currency exchange rates.

Table of ContentsDiscontinued Operations  
(dollars in thousands)

|   | Six Months<br>Ended<br>June 30, |          |            |             |
|---|---------------------------------|----------|------------|-------------|
|   | 2018                            | 2017     | Change     | %<br>Change |
| Income from discontinued operations, net of tax | \$2,943                         | \$33,018 | \$(30,075) | (91 )%      |

Income from discontinued operations, net of tax, includes our Venezuelan subsidiary's operations that were expropriated in June 2009, including compensation for expropriation, and our Belleli EPC business.

Income from discontinued operations, net of tax, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 decreased primarily due to a \$19.7 million decrease in income from our Venezuelan subsidiary and a \$10.4 million decrease in income from Belleli EPC. The decrease in income from our Venezuelan subsidiary was primarily related to payments received from PDVSA Gas, S.A. ("PDVSA Gas") in the prior year period associated with our Venezuelan subsidiary's sale of its previously nationalized assets. During the six months ended June 30, 2017, we received an installment payment, including an annual charge, of \$19.7 million. We have not recognized amounts payable to us by PDVSA Gas as a receivable and will therefore recognize payments received in the future as income from discontinued operations in the periods such payments are received. The decrease in income from Belleli EPC was primarily due to recoveries in the first quarter of 2017 resulting from our release of liquidated damages by a customer in exchange for us releasing them from certain extension of time claims and the obtaining of customer approved change orders. For further details on our discontinued operations, see Note 3 to the Financial Statements.

## Liquidity and Capital Resources

Our unrestricted cash balance was \$18.2 million at June 30, 2018, compared to \$49.1 million at December 31, 2017. Working capital decreased to \$130.2 million at June 30, 2018 from \$134.0 million at December 31, 2017. The decrease in working capital was primarily due to an increase in accounts payable and a decrease in current assets held for sale, partially offset by increases in inventory and contract assets. The increases in accounts payable and inventory were primarily due to a nonmonetary purchase of finished goods inventory during the current year period as discussed in further detail in Note 4 to the Financial Statements and higher product sales activity in North America. The increase in contract assets was primarily driven by higher product sales activity in North America. The decrease in current assets held for sale was driven by the sale of our PEQ assets in June 2018 as discussed in further detail in Note 6 to the Financial Statements.

Our cash flows from operating, investing and financing activities, as reflected in the statements of cash flows, are summarized in the following table (in thousands):

|  | Six Months Ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2018                         | 2017      |
| Net cash provided by (used in) continuing operations:        |                              |           |
| Operating activities   | \$28,140                     | \$55,604  |
| Investing activities   | (86,862 )                    | (36,895 ) |
| Financing activities   | 29,277                       | (30,643 ) |
| Effect of exchange rate changes on cash and cash equivalents | (2,455 )                     | (42 )     |
| Discontinued operations                                      | 947                          | 21,662    |



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**Investing Activities.** The increase in net cash used in investing activities during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily attributable to a \$50.0 million increase in capital expenditures. The increase in capital expenditures was primarily driven by an increase in growth capital expenditures on contract operation services contracts in the Middle East and Africa region.

**Financing Activities.** The increase in net cash provided by financing activities during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily attributable to an increase in net borrowings of \$8.1 million on our long-term debt and a \$44.7 million decrease in cash transferred to Archrock pursuant to the separation and distribution agreement. The transfers of cash to Archrock during the six months ended June 30, 2017 were triggered by our receipt of a payment from PDVSA Gas in respect of the sale of our and our joint ventures' previously nationalized assets and our occurrence of a qualified capital raise.

**Discontinued Operations.** The decrease in net cash provided by discontinued operations during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily attributable to \$19.7 million in proceeds received from the sale of our Venezuelan subsidiary's assets to PDVSA Gas during the six months ended June 30, 2017.

**Capital Requirements.** Our contract operations business is capital intensive, requiring significant investment to maintain and upgrade existing operations. Our capital spending is primarily dependent on the demand for our contract operations services and the availability of the type of equipment required for us to render those contract operations services to our customers. Our capital requirements have consisted primarily of, and we anticipate will continue to consist of, the following:

- growth capital expenditures, which are made to expand or to replace partially or fully depreciated assets or to expand the operating capacity or revenue generating capabilities of existing or new assets, whether through construction, acquisition or modification; and
- maintenance capital expenditures, which are made to maintain the existing operating capacity of our assets and related cash flows further extending the useful lives of the assets.

The majority of our growth capital expenditures are related to installation costs on integrated projects and acquisition costs of new compressor units and processing and treating equipment that we add to our contract operations fleet. In addition, growth capital expenditures can include the upgrading of major components on an existing compressor unit where the current configuration of the compressor unit is no longer in demand and the compressor unit is not likely to return to an operating status without the capital expenditures. These latter expenditures substantially modify the operating parameters of the compressor unit such that it can be used in applications for which it previously was not suited. Maintenance capital expenditures are related to major overhauls of significant components of a compressor unit, such as the engine, compressor and cooler, that return the components to a "like new" condition, but do not modify the applications for which the compressor unit was designed.

We generally invest funds necessary to manufacture contract operations fleet additions when our idle equipment cannot be reconfigured to economically fulfill a project's requirements and the new equipment expenditure is expected to generate economic returns over its expected useful life that exceeds our targeted return on capital. We currently plan to spend approximately \$200 million to \$260 million in capital expenditures during 2018, including (1) approximately \$170 million to \$230 million on contract operations growth capital expenditures and (2) approximately \$15 million to \$30 million on equipment maintenance capital related to our contract operations business.

**Long-Term Debt.** We and our wholly owned subsidiary, Exterran Energy Solutions, L.P. ("EESLP"), are parties to an amended and restated credit agreement (the "Credit Agreement") consisting of a \$680.0 million revolving credit facility expiring in November 2020 and previously included a term loan facility.



During the six months ended June 30, 2018 and 2017, the average daily outstanding borrowings of long-term debt were \$431.8 million and \$363.5 million, respectively. The weighted average annual interest rate on outstanding borrowings under our revolving credit facility at June 30, 2018 was 3.9%.

As of June 30, 2018, we had \$32.5 million in outstanding borrowings and \$57.3 million in outstanding letters of credit under our revolving credit facility. At June 30, 2018, taking into account guarantees through letters of credit, we had undrawn capacity of \$590.2 million under our revolving credit facility. Our Credit Agreement limits our senior secured leverage ratio (as defined in the Credit Agreement) on the last day of the fiscal quarter to no greater than 2.75 to 1.0. As a result of this limitation, \$566.3 million of the \$590.2 million of undrawn capacity under our revolving credit facility was available for additional borrowings as of June 30, 2018.

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The Credit Agreement contains various covenants with which we, EESLP and our respective restricted subsidiaries must comply, including, but not limited to, limitations on the incurrence of indebtedness, investments, liens on assets, repurchasing equity, making distributions, transactions with affiliates, mergers, consolidations, dispositions of assets and other provisions customary in similar types of agreements. We are required to maintain, on a consolidated basis, a minimum interest coverage ratio (as defined in the Credit Agreement) of 2.25 to 1.00; a maximum total leverage ratio (as defined in the Credit Agreement) of 4.50 to 1.00; and a maximum senior secured leverage ratio (as defined in the Credit Agreement) of 2.75 to 1.00. As of June 30, 2018, we maintained a 9.0 to 1.0 interest coverage ratio, a 1.8 to 1.0 total leverage ratio and a 0.2 to 1.0 senior secured leverage ratio. As of June 30, 2018, we were in compliance with all financial covenants under the Credit Agreement.

In April 2017, our 100% owned subsidiaries EESLP and EES Finance Corp. issued \$375.0 million aggregate principal amount of 8.125% senior unsecured notes due 2025 (the “2017 Notes”). In April 2018, the 2017 Notes were exchanged for notes with substantially identical terms and registered under the Securities Act of 1933, as amended. The 2017 Notes were, and the exchange notes issued in April 2018 are, guaranteed by us on a senior unsecured basis. The net proceeds of \$367.1 million from the 2017 Notes issuance were used to repay all of the borrowings outstanding under the term loan facility and revolving credit facility, and for general corporate purposes. Additionally, pursuant to the separation and distribution agreement from the Spin-off, EESLP used proceeds from the issuance of the 2017 Notes to pay a subsidiary of Archrock \$25.0 million in satisfaction of EESLP’s obligation to pay that sum following the occurrence of a qualified capital raise. The transfer of cash to a subsidiary of Archrock was recognized as a reduction to additional paid-in capital in the second quarter of 2017.

We may from time to time seek to retire, extend or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such extensions, repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Historically, we have financed capital expenditures with a combination of net cash provided by operating and financing activities. Our ability to access the capital markets may be restricted at the time when we would like, or need, to do so, which could have an adverse impact on our ability to maintain our operations and to grow. If any of our lenders become unable to perform their obligations under the Credit Agreement, our borrowing capacity under our revolving credit facility could be reduced. Inability to borrow additional amounts under our revolving credit facility could limit our ability to fund our future growth and operations. Based on current market conditions, we expect that net cash provided by operating activities and borrowings under our revolving credit facility will be sufficient to finance our operating expenditures, capital expenditures and other contractual cash obligations, including our debt obligations. However, if net cash provided by operating activities and borrowings under our revolving credit facility are not sufficient, we may seek additional debt or equity financing.

Contingencies to Archrock. Pursuant to the separation and distribution agreement, EESLP contributed to a subsidiary of Archrock the right to receive payments based on a notional amount corresponding to payments received by our subsidiaries from PDVSA Gas in respect of the sale of our and our joint ventures’ previously nationalized assets promptly after such amounts are collected by our subsidiaries until Archrock’s subsidiary has received an aggregate amount of such payments up to the lesser of (i) \$125.8 million, plus the aggregate amount of all reimbursable expenses incurred by Archrock and its subsidiaries in connection with recovering any PDVSA Gas default installment payments following the completion of the Spin-off or (ii) \$150.0 million. Our balance sheets do not reflect this contingent liability to Archrock or the amount payable to us by PDVSA Gas as a receivable. Pursuant to the separation and distribution agreement, we transferred cash of \$19.7 million to Archrock during the six months ended June 30, 2017. The transfer of cash was recognized as a reduction to additional paid-in capital in our financial statements. As of June 30, 2018, the remaining principal amounts due to us from PDVSA Gas in respect of the sale of

our previously nationalized assets and our joint ventures' previously nationalized assets were approximately \$17 million and \$4 million, respectively.

**Unrestricted Cash.** Of our \$18.2 million unrestricted cash balance at June 30, 2018, \$17.8 million was held by our non-U.S. subsidiaries. In the event of a distribution of earnings to the U.S. in the form of dividends, we may be subject to foreign withholding taxes. We do not believe that the cash held by our non-U.S. subsidiaries has an adverse impact on our liquidity because we expect that the cash we generate in the U.S., the available borrowing capacity under our revolving credit facility and the repayment of intercompany liabilities from our non-U.S. subsidiaries will be sufficient to fund the cash needs of our U.S. operations for the foreseeable future.

**Dividends.** We do not currently anticipate paying cash dividends on our common stock. We currently intend to retain our future earnings to support the growth and development of our business. The declaration of any future cash dividends and, if declared, the amount of any such dividends, will be subject to our financial condition, earnings, capital requirements, financial covenants, applicable law and other factors our board of directors deems relevant.

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Indemnifications. In conjunction with, and effective as of the completion of, the Spin-off, we entered into the separation and distribution agreement with Archrock, which governs, among other things, the treatment between Archrock and us of aspects relating to certain aspects of indemnification, insurance, confidentiality and cooperation. 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 financial responsibility for the obligations and liabilities of Archrock's business with Archrock. Pursuant to the agreement, we and Archrock will generally release the other party from all claims arising prior to the Spin-off that relate to the other party's business, subject to certain exceptions. Additionally, in conjunction with, and effective as of the completion of, the Spin-off, we entered into the tax matters agreement with Archrock. Under the tax matters agreement and subject to certain exceptions, we are generally liable for, and indemnify Archrock against, taxes attributable to our business, and Archrock is generally liable for, and indemnify us against, all taxes attributable to its business. We are generally liable for, and indemnify Archrock against, 50% of certain taxes that are not clearly attributable to our business or Archrock's business. Any payment made by us to Archrock, or by Archrock to us, is treated by all parties for tax purposes as a nontaxable distribution or capital contribution, respectively, made immediately prior to the Spin-off.

## Non-GAAP Financial Measures

We define EBITDA, as adjusted, as net income (loss) excluding income (loss) from discontinued operations (net of tax), cumulative effect of accounting changes (net of tax), income taxes, interest expense (including debt extinguishment costs), depreciation and amortization expense, impairment charges, restructuring and other charges, non-cash gains or losses from foreign currency exchange rate changes recorded on intercompany obligations, expensed acquisition costs and other items. We believe EBITDA, as adjusted, is an important measure of operating performance because it allows management, investors and others to evaluate and compare our core operating results from period to period by removing the impact of our capital structure (interest expense from our outstanding debt), asset base (depreciation and amortization), our subsidiaries' capital structure (non-cash gains or losses from foreign currency exchange rate changes on intercompany obligations), tax consequences, impairment charges, restructuring and other charges, expensed acquisition costs and other items. Management uses EBITDA, as adjusted, as a supplemental measure to review current period operating performance, comparability measures and performance measures for period to period comparisons. In addition, the compensation committee has used EBITDA, as adjusted, in evaluating the performance of the Company and management and in evaluating certain components of executive compensation, including performance-based annual incentive programs. Our EBITDA, as adjusted, may not be comparable to a similarly titled measure of another company because other entities may not calculate EBITDA in the same manner.

EBITDA, as adjusted, is not a measure of financial performance under GAAP, and should not be considered in isolation or as an alternative to net income (loss), cash flows from operating activities or any other measure determined in accordance with GAAP. Items excluded from EBITDA, as adjusted, are significant and necessary components to the operation of our business, and, therefore, EBITDA, as adjusted, should only be used as a supplemental measure of our operating performance.

The following table reconciles our net income to EBITDA, as adjusted (in thousands):

|   | Three Months Ended June 30, |         | Six Months Ended June 30, |           |
|---|-----------------------------|---------|---------------------------|-----------|
|   | 2018                        | 2017    | 2018                      | 2017      |
| Net income                                      | \$75                        | \$3,544 | \$5,412                   | \$23,865  |
| Income from discontinued operations, net of tax | (1,544 )                    | (374 )  | (2,943 )                  | (33,018 ) |
| Depreciation and amortization                   | 30,184                      | 26,348  | 61,213                    | 51,100    |

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|  |          |          |           |          |
|--|----------|----------|-----------|----------|
| Long-lived asset impairment  | —        | —        | 1,804     | —        |
| Restatement related charges (recoveries), net                                | (597     | ) (1,158 | ) 24      | 1,014    |
| Restructuring and other charges  | 1,422    | 310      | 1,422     | 2,618    |
| Interest expense   | 6,883    | 12,382   | 14,102    | 19,469   |
| (Gain) loss on currency exchange rate remeasurement of intercompany balances | 3,451    | 1,436    | 4,081     | (26      |
| Loss on sale of business   | 1,714    | —        | 1,714     | 111      |
| Brazilian Tax Regularization Program penalties                               | —        | 1,476    | —         | 1,476    |
| Provision for (benefit from) income taxes                                    | 9,622    | (640     | ) 15,114  | 11,250   |
| EBITDA, as adjusted  | \$51,210 | \$43,324 | \$101,943 | \$77,859 |

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### Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks associated with changes in foreign currency exchange rates due to our significant international operations. The net assets and liabilities of these operations are exposed to changes in currency exchange rates. These operations may also have net assets and liabilities not denominated in their functional currency, which exposes us to changes in foreign currency exchange rates that impact income. We currently do not have any derivative financial instruments outstanding to mitigate foreign currency risk. In the future, we may utilize derivative instruments to manage the risk of fluctuations in foreign currency exchange rates that could potentially impact our future earnings and forecasted cash flows. We recorded foreign currency losses of \$5.7 million and \$0.8 million in our statements of operations during the six months ended June 30, 2018 and 2017, respectively. Our foreign currency gains and losses are primarily due to exchange rate fluctuations related to monetary asset balances denominated in currencies other than the functional currency, including foreign currency exchange rate changes recorded on intercompany obligations. Our material exchange rate exposure relates to intercompany loans to subsidiaries whose functional currency are the Brazilian Real and Canadian Dollar, which loans carried U.S. dollars balances of \$11.2 million and \$32.8 million, respectively, as of June 30, 2018. Foreign currency losses during the six months ended June 30, 2018 included translation losses of \$4.1 million related to the functional currency remeasurement of our foreign subsidiaries' non-functional currency denominated intercompany obligations. Changes in exchange rates may create gains or losses in future periods to the extent we maintain net assets and liabilities not denominated in the functional currency.

### Item 4. Controls and Procedures

This Item 4 includes information concerning the controls and controls evaluation referred to in the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of the Exchange Act included in this Quarterly Report as Exhibits 31.1 and 31.2.

#### Management's Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to management to allow timely decisions regarding required disclosures.

In connection with the preparation of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2018. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in reports that we file or submit under the Exchange Act is accumulated and communicated to management, and made known to our principal executive officer and principal financial officer, on a timely basis to ensure that it is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

In the ordinary course of business, we are involved in various pending or threatened legal actions. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from any of these actions will not have a material adverse effect on our financial position, results of operations or cash flows. However, because of the inherent uncertainty of litigation and arbitration proceedings, we cannot provide assurance that the resolution of any particular claim or proceeding to which we are a party will not have a material adverse effect on our financial position, results of operations or cash flows.

Contemporaneously with filing the Form 8-K on April 26, 2016, we self-reported the errors and possible irregularities at Belleli EPC to the SEC. Since then, we have been cooperating with the SEC in its investigation of this matter. The SEC's investigation related to the circumstances giving rise to the restatement is continuing, and we are presently unable to predict the duration, scope or results or whether the SEC will commence any legal action.

## Item 1A. Risk Factors

There have been no material changes or updates to our risk factors that were previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) The following table summarizes our repurchases of equity securities during the three months ended June 30, 2018:

| Period                         | Total Number of Shares Repurchased <sup>(1)</sup> | Average Price Paid Per Unit | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares yet to be Purchased Under the Publicly Announced Plans or Programs |
|--------------------------------|---|-----------------------------|--|---|
| April 1, 2018 - April 30, 2018 | 944   | \$ 28.56                    | N/A  | N/A   |
| May 1, 2018 - May 31, 2018     | 481   | 28.88                       | N/A  | N/A   |
| June 1, 2018 - June 30, 2018   | —   | —                           | N/A  | N/A   |
| Total                          | 1,425   | \$ 28.67                    | N/A  | N/A   |

<sup>(1)</sup> Represents shares withheld to satisfy employees' tax withholding obligations in connection with vesting of restricted stock awards during the period.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.



Item 5. Other Information

None.

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Item 6. Exhibits

| Exhibit No. | Description   |
|-------------|---|
| 2.1         | <u>Separation and Distribution Agreement, dated as of November 3, 2015, by and among Exterran Holdings, Inc., Exterran General Holdings LLC, Exterran Energy Solutions, L.P., Exterran Corporation, AROC Corp., EESLP LP LLC, AROC Services GP LLC, AROC Services LP LLC and Archrock Services, L.P., incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on November 5, 2015</u>                       |
| 2.2         | <u>First Amendment to Separation and Distribution Agreement, dated as of December 15, 2015, by and among Archrock, Inc., Exterran General Holdings LLC, Exterran Energy Solutions, L.P., Exterran Corporation, AROC Corp., EESLP LP LLC, AROC Services GP LLC, AROC Services LP LLC and Archrock Services, L.P., incorporated by reference to Exhibit 2.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015</u> |
| 3.1         | <u>Restated Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on April 30, 2018</u>  |
| 31.1*       | <u>Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   |
| 31.2*       | <u>Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   |
| 32.1**      | <u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>   |
| 32.2**      | <u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>   |
| 101.INS     | XBRL Instance Document.   |
| 101.SCH     | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL     | XBRL Extension Calculation Linkbase Document.   |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB     | XBRL Taxonomy Extension Labels Linkbase Document.   |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document.   |

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\* Filed herewith.

\*\* Furnished, not filed.

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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.

Exterran Corporation

Date: August 7, 2018 By: /s/ DAVID A. BARTA

David A. Barta

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)