

Exterran Corp  
Form 10-Q  
January 04, 2017

Table of Contents

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 September 30, 2016

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 (I.R.S. Employer  
Incorporation or Organization) Identification No.)

4444 Brittmooore 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: Exterran Corp - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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 December 28, 2016: 35,438,843 shares.

---

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated and Combined Statements of Operations</u>	<u>4</u>
<u>Condensed Consolidated and Combined Statements of Comprehensive Income (Loss)</u>	<u>5</u>
<u>Condensed Consolidated and Combined Statements of Stockholders' Equity</u>	<u>6</u>
<u>Condensed Consolidated and Combined Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Unaudited Condensed Consolidated and Combined Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>60</u>
<u>Item 4. Controls and Procedures</u>	<u>60</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>64</u>
<u>Item 1A. Risk Factors</u>	<u>64</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>64</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>64</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>64</u>
<u>Item 5. Other Information</u>	<u>64</u>
<u>Item 6. Exhibits</u>	<u>66</u>
<u>SIGNATURES</u>	<u>67</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	September 30, 2016	December 31, 2015 As Restated (Note 2)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 32,053	\$ 29,032
Restricted cash	1,082	1,490
Accounts receivable, net of allowance of \$4,784 and \$2,868, respectively	237,654	363,581
Inventory (Note 4)	164,330	208,081
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 5)	41,811	65,311
Other current assets	51,121	53,866
Current assets associated with discontinued operations (Note 3)	22	32,923
Total current assets	528,073	754,284
Property, plant and equipment, net (Note 6)	807,610	858,188
Deferred income taxes (Note 13)	4,773	86,110
Intangible and other assets, net	63,064	51,533
Long-term assets associated with discontinued operations (Note 3)	—	38,281
Total assets	\$ 1,403,520	\$ 1,788,396
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable, trade	\$ 72,510	\$ 86,727
Accrued liabilities	170,527	175,841
Deferred revenue	30,983	31,675
Billings on uncompleted contracts in excess of costs and estimated earnings (Note 5)	30,976	37,908
Current liabilities associated with discontinued operations (Note 3)	1,005	13,645
Total current liabilities	306,001	345,796
Long-term debt (Note 8)	372,574	525,593
Deferred income taxes	15,138	22,519
Long-term deferred revenue	101,594	59,769
Other long-term liabilities	22,619	22,708
Long-term liabilities associated with discontinued operations (Note 3)	2	6,075
Total liabilities	817,928	982,460
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; 50,000,000 shares authorized; zero issued	—	—

Edgar Filing: Exterran Corp - Form 10-Q

Common stock, \$0.01 par value per share; 250,000,000 shares authorized; 35,635,832 and 35,153,358 shares issued, respectively	356	352
Additional paid-in capital	767,403	805,755
Accumulated deficit	(230,478	) (29,315 )
Treasury stock — 152,151 and 5,776 common shares, at cost, respectively	(1,498	) (54 )
Accumulated other comprehensive income	49,809	29,198
Total stockholders' equity (Note 15)	585,592	805,936
Total liabilities and stockholders' equity	\$ 1,403,520	\$ 1,788,396

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

Table of ContentsEXTERRAN CORPORATION  
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS(In thousands, except per share amounts)  
(unaudited)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2015	2015	2015
	As Restated (Note 2)	As Restated (Note 2)	As Restated (Note 2)	As Restated (Note 2)
<b>Revenues:</b>				
Contract operations	\$99,143	\$114,104	\$298,591	\$350,045
Aftermarket services	26,590	25,272	91,499	95,547
Oil and gas product sales—third parties	73,685	217,141	314,684	729,176
Oil and gas product sales—affiliates (Note 14)	—	36,551	—	146,263
Belleli EPC product sales	29,740	18,105	93,161	70,743
	229,158	411,173	797,935	1,391,774
<b>Costs and expenses:</b>				
Cost of sales (excluding depreciation and amortization expense):				
Contract operations	36,056	41,114	110,955	130,198
Aftermarket services	19,046	18,336	65,483	67,820
Oil and gas product sales	70,074	214,357	290,165	736,302
Belleli EPC product sales	29,104	26,292	93,953	103,483
Selling, general and administrative	37,864	54,202	124,250	167,452
Depreciation and amortization	28,183	36,083	106,533	110,151
Long-lived asset impairment (Note 10)	5,358	3,775	6,009	14,264
Restatement charges (Note 11)	12,298	—	20,149	—
Restructuring and other charges (Note 12)	2,239	7,150	25,442	17,697
Interest expense	8,254	581	25,596	1,407
Equity in income of non-consolidated affiliates (Note 7)	—	(5,084)	(10,403)	(15,152)
Other (income) expense, net	(3,349)	28,102	(13,160)	39,280
	245,127	424,908	844,972	1,372,902
Income (loss) before income taxes	(15,969)	(13,735)	(47,037)	18,872
Provision for (benefit from) income taxes (Note 13)	16,343	(4,137)	120,687	24,555
Loss from continuing operations	(32,312)	(9,598)	(167,724)	(5,683)
Income (loss) from discontinued operations, net of tax (Note 3)	19,652	18,275	(33,439)	36,414
Net income (loss)	\$(12,660)	\$8,677	\$(201,163)	\$30,731
<b>Basic net income (loss) per common share (Note 17):</b>				
Loss from continuing operations per common share	\$(0.93)	\$(0.28)	\$(4.85)	\$(0.16)
Income (loss) from discontinued operations per common share	0.56	0.53	(0.97)	1.06
Net income (loss) per common share	\$(0.37)	\$0.25	\$(5.82)	\$0.90
<b>Diluted net income (loss) per common share (Note 17):</b>				
Loss from continuing operations per common share	\$(0.93)	\$(0.28)	\$(4.85)	\$(0.16)
Income (loss) from discontinued operations per common share	0.56	0.53	(0.97)	1.06
Net income (loss) per common share	\$(0.37)	\$0.25	\$(5.82)	\$0.90

Edgar Filing: Exterran Corp - Form 10-Q

Weighted average common shares outstanding used in net income (loss)  
per common share (Note 17):

Basic	34,632	34,286	34,550	34,286
Diluted	34,632	34,286	34,550	34,286

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

4

---

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
		As Restated (Note 2)		As Restated (Note 2)
Net income (loss)	\$(12,660)	\$ 8,677	\$(201,163)	\$ 30,731
Other comprehensive income:				
Foreign currency translation adjustment	16,412	8,638	20,611	4,218
Comprehensive income (loss)	\$ 3,752	\$ 17,315	\$(180,552)	\$ 34,949

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



Table of ContentsEXTERRAN CORPORATION  
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Parent Equity	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2015 (As Restated)	\$ —	\$ —	\$ —	\$ —	\$1,337,590	\$ 26,745	\$1,364,335
Net income (As Restated)					30,731		30,731
Net distributions to parent (As Restated)					(27,331 )		(27,331 )
Foreign currency translation adjustment (As Restated)						4,218	4,218
Balance, September 30, 2015 (As Restated)	\$ —	\$ —	\$ —	\$ —	\$1,340,990	\$ 30,963	\$1,371,953
Balance, January 1, 2016 (As Restated)	\$ 352	\$805,755	\$(29,315 )	\$(54 )	\$—	\$ 29,198	\$805,936
Net loss			(201,163 )				(201,163 )
Options exercised		694					694
Foreign currency translation adjustment						20,611	20,611
Cash transfer to Archrock, Inc. (Note 18)		(49,176 )					(49,176 )
Treasury stock purchased				(1,444 )			(1,444 )
Stock-based compensation, net of forfeitures	4	10,157					10,161
Income tax benefit from stock-based compensation expenses		(27 )					(27 )
Balance, September 30, 2016	\$ 356	\$767,403	\$(230,478 )	\$(1,498 )	\$—	\$ 49,809	\$585,592

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

Table of ContentsEXTERRAN CORPORATION  
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS(In thousands)  
(unaudited)

	Nine Months Ended September 30,	
	2016	2015
		As Restated (Note 2)
Cash flows from operating activities:		
Net income (loss)	\$(201,163)	\$30,731
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	106,533	110,151
Long-lived asset impairment	6,009	14,264
Amortization of deferred financing costs	3,453	—
(Income) loss from discontinued operations, net of tax	33,439	(36,414 )
Provision for doubtful accounts	2,101	1,612
Gain on sale of property, plant and equipment	(2,354 )	(1,160 )
Equity in income of non-consolidated affiliates	(10,403 )	(15,152 )
(Gain) loss on remeasurement of intercompany balances	(9,922 )	35,550
Loss on foreign currency derivatives	587	—
Stock-based compensation expense	10,161	5,358
Deferred income tax provision (benefit)	73,092	(18,660 )
Changes in assets and liabilities:		
Accounts receivable and notes	127,751	41,071
Inventory	44,861	29,017
Costs and estimated earnings versus billings on uncompleted contracts	16,578	(22,521 )
Other current assets	6,470	(4,240 )
Accounts payable and other liabilities	(25,733 )	(69,691 )
Deferred revenue	25,083	(8,533 )
Other	6,477	1,578
Net cash provided by continuing operations	213,020	92,961
Net cash provided by (used in) discontinued operations	(2,284 )	6,950
Net cash provided by operating activities	210,736	99,911
Cash flows from investing activities:		
Capital expenditures	(47,689 )	(122,097)
Proceeds from sale of property, plant and equipment	972	5,275
Return of investments in non-consolidated affiliates	10,403	15,185
Proceeds received from settlement of note receivable	—	5,357
Settlement of foreign currency derivatives	(396 )	—
(Increase) decrease in restricted cash	408	(1 )
Cash invested in non-consolidated affiliates	—	(33 )
Net cash used in continuing operations	(36,302 )	(96,314 )
Net cash provided by discontinued operations	36,734	31,273
Net cash provided by (used in) investing activities	432	(65,041 )

Cash flows from financing activities:		
Proceeds from borrowings of long-term debt	353,758	—
Repayments of long-term debt	(508,948)	) —
Cash transfer to Archrock, Inc. (Note 18)	(49,176)	) —
Net distributions to parent	—	(40,811 )
Payments for debt issuance costs	(779)	) (498 )
Proceeds from stock options exercised	694	—
Purchase of treasury stock	(1,444)	) —
Stock-based compensation excess tax benefit	16	—
Net cash used in financing activities	(205,879)	) (41,309 )
Effect of exchange rate changes on cash and cash equivalents	(2,268)	) (976 )
Net increase (decrease) in cash and cash equivalents	3,021	(7,415 )
Cash and cash equivalents at beginning of period	29,032	39,361
Cash and cash equivalents at end of period	\$32,053	\$31,946

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

Table of Contents

EXTERRAN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. Description of Business, Spin-Off 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 market leader in the provision of compression, production and processing products and services that support the production and transportation of oil and natural gas throughout the world. 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 four primary business lines: contract operations, aftermarket services, oil and gas product sales and Belleli EPC product sales.

Spin-off

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 (the international contract operations and international aftermarket services businesses combined are referred to as the “international services businesses” and include such activities conducted outside of the United States of America (“U.S.”)) and global fabrication businesses into an independent, publicly traded company named Exterran Corporation. We refer to the global fabrication business previously operated by Archrock as our product sales businesses (including our oil and gas product sales and Belleli EPC product sales segments). To effect the Spin-off, on November 3, 2015, Archrock distributed, on a pro rata basis, all of our shares of common stock to its stockholders of record as of October 27, 2015 (the “Record Date”). Archrock shareholders received one share of Exterran Corporation common stock for every two shares of Archrock common stock held at the close of business on the Record Date. Pursuant to the separation and distribution agreement with Archrock and certain of our and Archrock’s respective affiliates, on November 3, 2015, we transferred cash of \$532.6 million to Archrock. On November 4, 2015, Exterran Corporation common stock began “regular-way” trading on the New York Stock Exchange under the stock symbol “EXTN.” Following the completion of the Spin-off, we and Archrock are independent, publicly traded companies with separate boards of directors and management.

Basis of Presentation

The accompanying unaudited condensed consolidated and combined 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, consisting only of normal recurring adjustments, that are necessary to present fairly our consolidated and combined financial position, results of operations and cash flows for the periods indicated. All financial information presented for periods after the Spin-off represents our consolidated results of operations, financial position and cash flows (referred to as the “condensed consolidated financial statements”) and all financial information for periods prior to the Spin-off represents our combined results of operations, financial

position and cash flows (referred to as the “condensed combined financial statements”). Accordingly:

- Our condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2016 and our condensed consolidated statements of cash flows and stockholders’ equity for the nine months ended September 30, 2016 consist entirely of our consolidated results. Our condensed combined statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2015 and our condensed combined statements of cash flows and stockholders’ equity for the nine months ended September 30, 2015 consist entirely of the combined results of Archrock’s international services and product sales businesses.

Our condensed consolidated balance sheets at September 30, 2016 and December 31, 2015 consist entirely of our consolidated balances.

## Table of Contents

The condensed combined financial statements were derived from the accounting records of Archrock and reflect the combined historical results of operations, financial position and cash flows of Archrock's international services and product sales businesses. The condensed combined financial statements were presented as if such businesses had been combined for periods prior to November 4, 2015. All intercompany transactions and accounts within these statements have been eliminated. Affiliate transactions between the international services and product sales businesses of Archrock and the other businesses of Archrock have been included in the condensed combined financial statements, with the exception of oil and gas product sales within our wholly owned subsidiary, Exterran Energy Solutions, L.P. ("EESLP"). Prior to the closing of the Spin-off, EESLP also had a fleet of compression units used to provide compression services in the U.S. services business of Archrock. Revenue has not been recognized in the condensed combined statements of operations for the sale of compressor units by us that were used by EESLP to provide compression services to customers of the U.S. services business of Archrock. See Note 14 for further discussion on transactions with affiliates.

The condensed combined statements of operations include expense allocations for certain functions historically performed by Archrock and not allocated to its operating segments, including allocations of expenses related to executive oversight, accounting, treasury, tax, legal, human resources, procurement and information technology. See Note 14 for further discussion regarding the allocation of corporate expenses.

The accompanying unaudited condensed consolidated and combined financial statements should be read in conjunction with the consolidated and combined financial statements presented in Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2015 (the "2015 Form 10-K/A"). 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.

We refer to the condensed consolidated and combined financial statements collectively as "financial statements," and individually as "balance sheets," "statements of operations," "statements of comprehensive income (loss)," "statements of stockholders' equity" and "statements of cash flows" herein.

## Recent Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange 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. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the guidance in determining revenue recognition as principal versus agent. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, which provides guidance in accounting for immaterial performance obligations and shipping and handling activities. In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which provides clarification on assessing the collectibility criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. The updates will be effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Early adoption is permitted for reporting periods beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt the updates. We are currently evaluating the potential impact of the updates on our financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which will require an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This update will be effective on a prospective basis for interim and annual periods beginning after December 15, 2016, with early adoption permitted. We do not believe the adoption of this update will have a material impact on our financial statements.

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. The update also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. Accounting by lessors will remain largely unchanged. 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. We are currently evaluating the potential impact of the update on our financial statements.

## Table of Contents

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). The update covers such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. This update will be effective for reporting periods beginning after December 15, 2016, including interim periods within the reporting period. Early adoption is permitted. We are currently evaluating the potential impact of the update on our financial statements.

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. This update will be effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Early adoption is permitted. We are currently evaluating the potential impact of the update on our financial statements.

## 2. Restatement of Previously Reported Consolidated and Combined Financial Statements

Subsequent to the filing of our Annual Report on Form 10-K for the year ended December 31, 2015, originally filed with the SEC on February 26, 2016, our senior management identified errors relating to the application of percentage-of-completion accounting principles to certain business lines of our subsidiary, Belleli Energy S.r.l. (subsequently renamed Exterran Italy S.r.l.). Such business lines comprise 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). Belleli Energy S.r.l. is headquartered in Mantova, Italy, and its operations are based in Dubai, United Arab Emirates. Management promptly reported the matter to the Audit Committee of the Company’s Board of Directors, which immediately retained counsel, who in turn retained a forensic accounting firm, to initiate an internal investigation.

As a result of the internal investigation, management identified inaccuracies related to projects within our Belleli EPC product sales segment in estimating the total costs required to complete projects impacting the years ended December 31, 2015, 2014, 2013, 2012 and 2011 (including the unaudited quarterly periods within 2015 and 2014). The application of percentage-of-completion accounting principles on Belleli EPC projects is estimated using the cost to total cost basis, which requires an estimate of total costs (labor and materials) required to complete each project. The cost-to-complete estimates for Belleli EPC projects were incorrectly estimated and at times manipulated by or at the direction of certain former members of Belleli EPC local senior management, resulting in a misstatement of product sales revenue. The inaccurate cost-to-complete estimates for some Belleli EPC projects also resulted in the need to establish and/or increase contract loss provisions for certain projects, and as a result, product sales cost of sales was misstated. Additionally, penalties for liquidated damages on certain projects were not correctly estimated. Furthermore, other errors within product sales cost of sales on Belleli EPC projects were identified, primarily relating to vendor claims, customer warranties and costs being charged to incorrect projects. As a result of the errors and conduct identified, our Belleli EPC product sales revenue was overstated by \$8.7 million and \$20.9 million during the three and nine months ended September 30, 2015, respectively, and our Belleli EPC product sales cost of sales was overstated by \$3.5 million during the three months ended September 30, 2015 and understated by \$7.0 million during the nine months ended September 30, 2015. These errors and inaccuracies also resulted in the misstatement of accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, billings on uncompleted contracts in excess of costs and estimated earnings, accrued liabilities and related income tax effects for each of the periods impacted.

We separately identified prior period errors related to the miscalculation and recovery of non-income-based tax receivables owed to us from the Brazilian government as of December 31, 2011. As a result of these errors and since



relevant prior periods were being restated, we recorded adjustments to decrease intangible and other assets, net, beginning parent equity and other income by approximately \$26.1 million, \$17.5 million and \$10.7 million, respectively, as of and for the year ended December 31, 2011 and increase other comprehensive income by approximately \$2.1 million as of December 31, 2011. These errors also resulted in the misstatement of intangible and other assets, net, other (income) expense, net, and accumulated other comprehensive income in periods subsequent to December 31, 2011.

Along with restating our financial statements to correct the errors discussed above, we recorded adjustments for certain immaterial accounting errors as of December 31, 2015 and for the three and nine months ended September 30, 2015.

Table of Contents

We delayed the filing of this Quarterly Report on Form 10-Q pending the completion of the internal investigation, including the completion of the restatement. As a result of that investigation, the historical financial statements included in this Form 10-Q have been restated to reflect the adjustments described above. The restatement has been set forth below for the periods presented and in its entirety in the 2015 Form 10-K/A which the Company has filed with the SEC concurrently with this Form 10-Q. The Company is also concurrently filing Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016.

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, including responding to a subpoena for documents related to the restatement and compliance with the U.S. Foreign Corrupt Practices Act (“FCPA”), which are also being provided to the Department of Justice at its request. The FCPA related requests in the SEC subpoena pertain to our policies and procedures, information about our third-party sales agents, and documents related to historical internal investigations completed prior to November 2015.

The tables below summarize the effects of the restatement on our (i) balance sheet at December 31, 2015, (ii) statements of operations for the three and nine months ended September 30, 2015, (iii) statements of comprehensive income for the three and nine months ended September 30, 2015, (iv) statement of stockholders’ equity for the nine months ended September 30, 2015 and (v) statement of cash flows for the nine months ended September 30, 2015.

Table of Contents

The effects of the restatement on our balance sheet as of December 31, 2015 are set forth in the following table (in thousands):

	December 31, 2015			As Restated and Reclassified
	As Previously Reported	Restatement Adjustments	Reclassification Adjustments (1)	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$29,032	\$ —	\$ —	\$29,032
Restricted cash	1,490	—	—	1,490
Accounts receivable, net of allowance	372,105	(714 )	(7,810 )	363,581
Inventory	210,554	(2,042 )	(431 )	208,081
Costs and estimated earnings in excess of billings on uncompleted contracts	119,621	(36,644 )	(17,666 )	65,311
Other current assets	60,896	(205 )	(6,825 )	53,866
Current assets associated with discontinued operations	191	—	32,732	32,923
Total current assets	793,889	(39,605 )	—	754,284
Property, plant and equipment, net	899,402	(2,940 )	(38,274 )	858,188
Deferred income taxes	86,807	(697 )	—	86,110
Intangible and other assets, net	62,261	(10,721 )	(7 )	51,533
Long-term assets associated with discontinued operations	—	—	38,281	38,281
Total assets	\$1,842,359	\$ (53,963 )	\$ —	\$1,788,396
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable, trade	\$94,353	\$ 213	\$ (7,839 )	\$86,727
Accrued liabilities	129,880	48,517	(2,556 )	175,841
Deferred revenue	31,675	—	—	31,675
Billings on uncompleted contracts in excess of costs and estimated earnings	38,666	1,243	(2,001 )	37,908
Current liabilities associated with discontinued operations	1,249	—	12,396	13,645
Total current liabilities	295,823	49,973	—	345,796
Long-term debt	525,593	—	—	525,593
Deferred income taxes	22,531	(13 )	1	22,519
Long-term deferred revenue	59,769	—	—	59,769
Other long-term liabilities	28,626	—	(5,918 )	22,708
Long-term liabilities associated with discontinued operations	158	—	5,917	6,075
Total liabilities	932,500	49,960	—	982,460
Stockholders' equity:				
Common stock	352	—	—	352
Additional paid-in capital	932,058	(126,303 )	—	805,755
Accumulated deficit	(36,483 )	7,168	—	(29,315 )
Treasury stock	(54 )	—	—	(54 )
Accumulated other comprehensive income	13,986	15,212	—	29,198

Edgar Filing: Exterran Corp - Form 10-Q

Total stockholders' equity	909,859	(103,923 )	—	805,936
Total liabilities and stockholders' equity	\$ 1,842,359	\$ (53,963 )	\$ —	\$ 1,788,396

(1) As discussed in Note 3, in the first quarter of 2016, we committed to a plan to exit the critical process equipment business, which provided engineering, procurement and manufacturing services related to the manufacture of critical process equipment for refinery and petrochemical facilities (referred to as “Belleli CPE” or the “Belleli CPE business” herein). We completed the sale of our Belleli CPE business in August 2016. The results of our Belleli CPE business have been reclassified to discontinued operations in our financial statements for all periods presented.

Table of Contents

The effects of the restatement on our statements of operations for the three and nine months ended September 30, 2015 are set forth in the following table (in thousands, except per share data):

	Three Months Ended September 30, 2015				Nine Months Ended September 30, 2015			
	As Previously Reported	Restatement Adjustments	Reclassification Adjustments (1)	As Restated and Reclassified	As Previously Reported	Restatement Adjustments	Reclassification Adjustments (1)	As Restated and Reclassified
<b>Revenues:</b>								
Contract operations	\$ 114,104	\$ —	\$ —	\$ 114,104	\$ 350,045	\$ —	\$ —	\$ 350,045
Aftermarket services	25,272	—	—	25,272	95,547	—	—	95,547
Oil and gas product sales—third parties	234,490	—	(17,349 )	217,141	768,339	—	(39,163 )	729,176
Oil and gas product sales—affiliates	36,551	—	—	36,551	146,263	—	—	146,263
Belleli EPC product sales	26,772	(8,667 )	—	18,105	91,686	(20,943 )	—	70,743
	437,189	(8,667 )	(17,349 )	411,173	1,451,880	(20,943 )	(39,163 )	1,391,774
<b>Costs and expenses:</b>								
<b>Cost of sales (excluding depreciation and amortization expense):</b>								
Contract operations	41,114	—	—	41,114	130,198	—	—	130,198
Aftermarket services	18,336	—	—	18,336	67,820	—	—	67,820
Oil and gas product sales	230,708	—	(16,351 )	214,357	772,924	—	(36,622 )	736,302
Belleli EPC product sales	29,840	(3,548 )	—	26,292	96,528	6,955	—	103,483
Selling, general and administrative	55,018	—	(816 )	54,202	169,348	—	(1,896 )	167,452
Depreciation and amortization	36,837	90	(844 )	36,083	112,418	284	(2,551 )	110,151
Long-lived asset impairment	3,775	—	—	3,775	14,264	—	—	14,264
Restructuring and other charges	7,150	—	—	7,150	17,697	—	—	17,697
Interest expense	581	—	—	581	1,407	—	—	1,407
Equity in income of non-consolidated affiliates	(5,084 )	—	—	(5,084 )	(15,152 )	—	—	(15,152 )
Other (income) expense, net	27,974	(53 )	181	28,102	39,852	(1,014 )	442	39,280
	446,249	(3,511 )	(17,830 )	424,908	1,407,304	6,225	(40,627 )	1,372,902
Income (loss) before income taxes	(9,060 )	(5,156 )	481	(13,735 )	44,576	(27,168 )	1,464	18,872
Provision for (benefit from) income taxes	(2,587 )	(1,550 )	—	(4,137 )	24,215	340	—	24,555
Income (loss) from continuing operations	(6,473 )	(3,606 )	481	(9,598 )	20,361	(27,508 )	1,464	(5,683 )

Edgar Filing: Exterran Corp - Form 10-Q

Income from discontinued operations, net of tax	18,756	—	(481 )	18,275	37,878	—	(1,464 )	36,414
Net income	\$12,283	\$ (3,606 )	\$ —	\$ 8,677	\$58,239	\$ (27,508 )	\$ —	\$ 30,731

Basic net income per common share:

Income (loss) from continuing operations per common share	\$(0.19 )	\$(0.11 )	\$ 0.02	\$(0.28 )	\$0.59	\$(0.80 )	\$ 0.05	\$(0.16 )
Income from discontinued operations per common share	0.55	—	(0.02 )	0.53	1.11	—	(0.05 )	1.06
Net income per common share	\$0.36	\$ (0.11 )	\$ —	\$ 0.25	\$1.70	\$ (0.80 )	\$ —	\$ 0.90

Diluted net income per common share:

Income (loss) from continuing operations per common share	\$(0.19 )	\$(0.11 )	\$ 0.02	\$(0.28 )	\$0.59	\$(0.80 )	\$ 0.05	\$(0.16 )
Income from discontinued operations per common share	0.55	—	(0.02 )	0.53	1.11	—	(0.05 )	1.06
Net income per common share	\$0.36	\$ (0.11 )	\$ —	\$ 0.25	\$1.70	\$ (0.80 )	\$ —	\$ 0.90

As discussed in Note 3, in the first quarter of 2016, we committed to a plan to exit our Belleli CPE business, which provided engineering, procurement and manufacturing services related to the manufacture of critical process (1)equipment for refinery and petrochemical facilities. We completed the sale of our Belleli CPE business in August 2016. The results of our Belleli CPE business have been reclassified to discontinued operations in our financial statements for all periods presented.

Table of Contents

The effects of the restatement on our statements of comprehensive income for the three and nine months ended September 30, 2015 are set forth in the following table (in thousands):

	Three Months Ended September 30, 2015				Nine Months Ended September 30, 2015			
	As Previously Reported	Restatement Adjustments	Reclassification Adjustments	As Restated and Reclassified	As Previously Reported	Restatement Adjustments	Reclassification Adjustments	As Restated and Reclassified
Net income	\$ 12,283	\$ (3,606 )	\$ —	\$ — 8,677	\$ 58,239	\$ (27,508 )	\$ —	\$ — 30,731
Other comprehensive income (loss):								
Foreign currency translation adjustment	4,949	3,689	—	8,638	(1,754 )	5,972	—	4,218
Comprehensive income	\$ 17,232	\$ 83	\$ —	\$ — 17,315	\$ 56,485	\$ (21,536 )	\$ —	\$ — 34,949

The effects of the restatement on our statement of stockholders' equity for the nine months ended September 30, 2015 are set forth in the following table (in thousands):

	Nine Months Ended September 30, 2015			
	As Previously Reported	Restatement Adjustments	Reclassification Adjustments	As Restated and Reclassified
Balance, January 1, 2015	\$ 1,451,822	\$ (87,487 )	\$ —	\$ — 1,364,335
Net income	58,239	(27,508 )	—	30,731
Net distributions to parent	(27,331 )	—	—	(27,331 )
Foreign currency translation adjustment	(1,754 )	5,972	—	4,218
Balance, September 30, 2015	\$ 1,480,976	\$ (109,023 )	\$ —	\$ — 1,371,953

Table of Contents

The effects of the restatement on our statement of cash flows for the nine months ended September 30, 2015 are set forth in the following table (in thousands):

	Nine Months Ended September 30, 2015			
	As Previously Reported	Restatement Adjustments	Reclassification Adjustments (1)	As Restated and Reclassified
Cash flows from operating activities:				
Net income	\$58,239	\$(27,508 )	\$ —	\$ 30,731
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	112,418	284	(2,551 )	110,151
Long-lived asset impairment	14,264	—	—	14,264
Income from discontinued operations, net of tax	(37,878 )	—	1,464	(36,414 )
Provision for doubtful accounts	1,774	—	(162 )	1,612
Gain on sale of property, plant and equipment	(1,184 )	—	24	(1,160 )
Equity in income of non-consolidated affiliates	(15,152 )	—	—	(15,152 )
Loss on remeasurement of intercompany balances	35,550	—	—	35,550
Stock-based compensation expense	5,358	—	—	5,358
Deferred income tax benefit	(19,000 )	340	—	(18,660 )
Changes in assets and liabilities:				
Accounts receivable and notes	39,714	2,574	(1,217 )	41,071
Inventory	29,054	—	(37 )	29,017
Costs and estimated earnings versus billings on uncompleted contracts	(34,393 )	15,442	(3,570 )	(22,521 )
Other current assets	(9,505 )	187	5,078	(4,240 )
Accounts payable and other liabilities	(75,772 )	9,911	(3,830 )	(69,691 )
Deferred revenue	(8,533 )	—	—	(8,533 )
Other	684	(1,230 )	2,124	1,578
Net cash provided by continuing operations	95,638	—	(2,677 )	92,961
Net cash provided by discontinued operations	4,273	—	2,677	6,950
Net cash provided by operating activities	99,911	—	—	99,911
Cash flows from investing activities:				
Capital expenditures	(123,943)	—	1,846	(122,097 )
Proceeds from sale of property, plant and equipment	5,275	—	—	5,275
Return of investments in non-consolidated affiliates	15,185	—	—	15,185
Proceeds received from settlement of note receivable	5,357	—	—	5,357
(Increase) decrease in restricted cash	(1 )	—	—	(1 )
Cash invested in non-consolidated affiliates	(33 )	—	—	(33 )
Net cash used in continuing operations	(98,160 )	—	1,846	(96,314 )
Net cash provided by discontinued operations	33,119	—	(1,846 )	31,273
Net cash used in investing activities	(65,041 )	—	—	(65,041 )
Cash flows from financing activities:				
Net distributions to parent	(40,811 )	—	—	(40,811 )
Payments for debt issuance costs	(498 )	—	—	(498 )
Net cash used in financing activities	(41,309 )	—	—	(41,309 )



Edgar Filing: Exterran Corp - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents	(976 )	—	—	(976 )
Net decrease in cash and cash equivalents	(7,415 )	—	—	(7,415 )
Cash and cash equivalents at beginning of period	39,361	—	—	39,361
Cash and cash equivalents at end of period	\$31,946	\$—	\$ —	\$ 31,946

As discussed in Note 3, in the first quarter of 2016, we committed to a plan to exit our Belleli CPE business, which provided engineering, procurement and manufacturing services related to the manufacture of critical process (1)equipment for refinery and petrochemical facilities. We completed the sale of our Belleli CPE business in August 2016. The results of our Belleli CPE business have been reclassified to discontinued operations in our financial statements for all periods presented.

Table of Contents

## 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 installment payments, including an annual charge, totaling \$19.5 million and \$18.9 million during the three months ended September 30, 2016 and 2015, respectively, and \$38.8 million and \$37.6 million during the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, the remaining principal amount due to us was approximately \$33 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 connection with the sale of these assets, we have agreed to suspend the arbitration proceeding previously filed by our Spanish subsidiary against Venezuela pending payment in full by PDVSA Gas of the purchase price for these nationalized assets.

In accordance with the separation and distribution agreement, a subsidiary of Archrock has the right to receive payments from 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 \$38.8 million to Archrock during the nine months ended September 30, 2016. The transfer of cash was recognized as a reduction to additional paid-in capital in our financial statements. See Note 18 for further discussion related to our contingent liability to Archrock.

In the first quarter of 2016, we committed to a plan to exit our Belleli CPE and Belleli EPC businesses (collectively, “Belleli businesses”) to focus on our core oil and gas businesses. Belleli CPE provided engineering, procurement and manufacturing services related to the manufacture of critical process equipment for refinery and petrochemical facilities. Belleli EPC provides engineering, procurement and construction for the manufacture of tanks for tank farms and the manufacture of evaporators and brine heaters for desalination plants. Belleli CPE met the held for sale criteria and is reflected as discontinued operations in our financial statements for all periods presented. In August 2016, we completed the sale of our Belleli CPE business to Tosto S.r.l. for cash proceeds of \$5.5 million. Belleli CPE was previously included in our former product sales segment. In conjunction with the planned disposition of Belleli CPE, we recorded impairments of long-lived assets and current assets that totaled \$68.8 million during the nine months ended September 30, 2016. The impairment charges are reflected in income (loss) from discontinued operations, net of tax. In accordance with GAAP, Belleli EPC will not be reflected as discontinued operations until the substantial cessation of the remaining non-oil and gas business. During the first quarter of 2016, we ceased the booking of new orders for our Belleli EPC business. Belleli EPC is represented by our Belleli EPC product sales segment. Our plan to exit our Belleli EPC business resulted in a reduction in the remaining useful lives of the assets that are currently used in the Belleli EPC business and a long-lived asset impairment charge of \$0.7 million impacting results from continuing operations during the nine months ended September 30, 2016.

The following tables summarize the operating results of discontinued operations (in thousands):

Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
Venezuela	Belleli CPE	Total	Venezuela	Belleli CPE	Total

Edgar Filing: Exterran Corp - Form 10-Q

Revenue	\$—	\$4,376	\$4,376	\$—	\$17,349	\$17,349
Cost of sales (excluding depreciation and amortization expense)	—	3,887	3,887	—	16,351	16,351
Selling, general and administrative	47	788	835	132	816	948
Depreciation and amortization	—	—	—	—	844	844
Recovery attributable to expropriation	(16,567 )	—	(16,567 )	(16,541 )	—	(16,541 )
Interest expense	—	2	2	—	—	—
Other (income) expense, net	(2,941 )	(492 )	(3,433 )	(2,347 )	(181 )	(2,528 )
Income (loss) from discontinued operations, net of tax	\$19,461	\$191	\$19,652	\$18,756	\$(481 )	\$18,275

Table of Contents

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Venezuela	Belleli CPE	Total	Venezuela	Belleli CPE	Total
Revenue	\$—	\$28,469	\$28,469	\$—	\$39,163	\$39,163
Cost of sales (excluding depreciation and amortization expense)	—	27,323	27,323	—	36,622	36,622
Selling, general and administrative	125	4,229	4,354	366	1,896	2,262
Depreciation and amortization	—	861	861	—	2,551	2,551
Long-lived asset impairment	—	68,780	68,780	—	—	—
Recovery attributable to expropriation	(33,124 )	—	(33,124 )	(33,523 )	—	(33,523 )
Interest expense	—	17	17	—	—	—
Other (income) expense, net	(5,962 )	(341 )	(6,303 )	(4,721 )	(442 )	(5,163 )
Income (loss) from discontinued operations, net of tax	\$38,961	\$(72,400)	\$(33,439)	\$37,878	\$(1,464)	\$36,414

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

	September 30, 2016		December 31, 2015	
	Venezuela	Belleli CPE	Total	Total
Cash	\$ 18	\$177	\$—	\$177
Accounts receivable	—	—	7,810	7,810
Inventory	—	—	431	431
Costs and estimated earnings in excess of billings on uncompleted contracts	—	—	17,666	17,666
Other current assets	4	14	6,825	6,839
Total current assets associated with discontinued operations	22	191	32,732	32,923
Property, plant and equipment, net	—	—	38,274	38,274
Intangible and other assets, net	—	—	7	7
Total assets associated with discontinued operations	\$ 22	\$191	\$71,013	\$71,204
Accounts payable	\$ —	\$—	\$7,839	\$7,839
Accrued liabilities	1,005	1,249	2,556	3,805
Billings on uncompleted contracts in excess of costs and estimated earnings	—	—	2,001	2,001
Total current liabilities associated with discontinued operations	1,005	1,249	12,396	13,645
Other long-term liabilities	2	158	5,917	6,075
Total liabilities associated with discontinued operations	\$ 1,007	\$1,407	\$18,313	\$19,720

## 4. Inventory

Inventory consisted of the following amounts (in thousands):

	September 30, 2016	December 31, 2015 As Restated
Parts and supplies	\$ 108,033	\$ 133,558
Work in progress	32,750	41,184
Finished goods	23,547	33,339

Inventory	\$ 164,330	\$ 208,081
-----------	------------	------------

Table of Contents

## 5. Product Sales Contracts

Costs, estimated earnings and billings on uncompleted contracts that are recognized using the percentage-of-completion method consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
		As Restated
Costs incurred on uncompleted contracts	\$ 532,603	\$ 664,229
Estimated earnings	(3,935 )	44,915
	528,668	709,144
Less — billings to date	(517,833 )	(681,741 )
	\$ 10,835	\$ 27,403

Costs, estimated earnings and billings on uncompleted contracts are presented in the accompanying financial statements as follows (in thousands):

	September 30, 2016	December 31, 2015
		As Restated
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 41,811	\$ 65,311
Billings on uncompleted contracts in excess of costs and estimated earnings	(30,976 )	(37,908 )
	\$ 10,835	\$ 27,403

## 6. Property, Plant and Equipment, net

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

	September 30, 2016	December 31, 2015
		As Restated
Compression equipment, facilities and other fleet assets (1)	\$ 1,478,227	\$ 1,527,328
Land and buildings	111,724	117,247
Transportation and shop equipment	144,281	144,413
Other	95,593	99,035
	1,829,825	1,888,023
Accumulated depreciation (1)	(1,022,215 )	(1,029,835 )
Property, plant and equipment, net	\$ 807,610	\$ 858,188

During the nine months ended September 30, 2016, we retired \$81.9 million of fully depreciated capitalized (1) installation costs relating to a contract operations project in the Eastern Hemisphere that early terminated operations in January 2016.

## 7. Investments in Non-Consolidated Affiliates

Investments in affiliates that are not controlled by us where we have the ability to exercise significant influence over the operations are accounted for using the equity method.

We own a 30.0% interest in WilPro Energy Services (PIGAP II) Limited and 33.3% interest in WilPro Energy Services (El Furrial) Limited, which are joint ventures that provided natural gas compression and injection services in Venezuela. In May 2009, Petroleos de Venezuela S.A. (“PDVSA”) assumed control over the assets of our Venezuelan joint ventures and transitioned the operations, including the hiring of their employees, to PDVSA. In March 2011, our Venezuelan joint ventures, together with the Netherlands’ parent company of our joint venture partners, filed a request for the institution of an arbitration proceeding against Venezuela with the International Centre for Settlement of Investment Disputes related to the seized assets and investments.

Table of Contents

In March 2012, our Venezuelan joint ventures sold their assets to PDVSA Gas. We received installment payments, including an annual charge, totaling \$5.1 million during the three months ended September 30, 2015 and \$10.4 million and \$15.2 million during the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, the remaining principal amount due to us was approximately \$4 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 equity in income of non-consolidated affiliates in our statements of operations in the periods such payments are received. In connection with the sale of our Venezuelan joint ventures' assets, the joint ventures and our joint venture partners have agreed to suspend their previously filed arbitration proceeding against Venezuela pending payment in full by PDVSA Gas of the purchase price for the assets.

In accordance with the separation and distribution agreement, a subsidiary of Archrock has the right to receive payments from EESLP based on a notional amount corresponding to payments received by our subsidiaries from PDVSA Gas in respect of the sale of our joint ventures' previously nationalized assets promptly after such amounts are collected by our subsidiaries. Pursuant to the separation and distribution agreement, we transferred cash of \$10.4 million to Archrock during the nine months ended September 30, 2016. The transfer of cash was recognized as a reduction to additional paid-in capital in our financial statements. See Note 18 for further discussion related to our contingent liability to Archrock.

## 8. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Revolving credit facility due November 2020	\$ 130,000	\$ 285,000
Term loan facility due November 2017	245,000	245,000
Other, interest at various rates, collateralized by equipment and other assets	646	836
Unamortized deferred financing costs	(3,072	) (5,243
Long-term debt	\$ 372,574	\$ 525,593

## Revolving Credit Facility and Term Loan

On July 10, 2015, we and our wholly owned subsidiary, EESLP, entered into a \$750.0 million credit agreement (the "Credit Agreement") with Wells Fargo, as the administrative agent, and various financial institutions as lenders. On October 5, 2015, the parties amended and restated the Credit Agreement to provide for a \$925.0 million credit facility, consisting of a \$680.0 million revolving credit facility and a \$245.0 million term loan facility (collectively, the "Credit Facility"). Availability under the Credit Facility was subject to the satisfaction of certain conditions precedent, including the consummation of the Spin-off on or before January 4, 2016 (the date on which those conditions were satisfied, November 3, 2015, is referred to as the "Initial Availability Date"). In accordance with the Credit Agreement, we are required to repay borrowings outstanding under the term loan facility on each anniversary of the Initial Availability Date in an amount equal to the lesser of (i) \$12.3 million and (ii) the outstanding principal balance of the term loan facility. The principal amount of \$12.3 million due in November 2016 under the term loan facility is classified as long-term in our balance sheet at September 30, 2016 because we have the intent and ability to refinance the current principal amount due with borrowings under our existing revolving credit facility.

As a result of the events described in Note 2 related to Belleli EPC (including, without limitation, the need to restate previously issued financial statements), on April 22, 2016, June 17, 2016, August 24, 2016 and November 22, 2016,



we and our wholly owned subsidiary, EESLP, entered into amendments to the Credit Agreement (as amended, the “Amended Credit Agreement”) with Wells Fargo, as the administrative agent, and various financial institutions as lenders. During the nine months ended September 30, 2016, we incurred transaction costs of approximately \$0.8 million related to the Amended Credit Agreement. These costs were included in intangible and other assets, net, and are being amortized over the term of the revolving credit facility.

## Table of Contents

Under the Amended Credit Agreement, the lenders waived, among other things, (1) any potential event of default arising under the Credit Agreement as a result of the potential inaccuracy of certain representations and warranties regarding our prior period financial information and previously delivered compliance certificate for the 2015 fiscal year and (2) any requirement that EESLP or we make any representations and warranties as to our prior period financial statements and other prior period financial information. The Amended Credit Agreement extended the deadline to no later than February 28, 2017 by which we are required to deliver to the lenders our quarterly reports for the fiscal quarters ended March 31, 2016, June 30, 2016 and September 30, 2016 and the related compliance certificates demonstrating compliance with the financial covenants set forth in the Credit Agreement.

The Amended Credit Agreement also, among other things:

provides that LIBOR loans will bear interest at LIBOR plus 2.75% and base rate loans will bear interest at the Base Rate plus 1.75% until February 28, 2017 (or, if earlier, the date we deliver replacement financial information for our 2015 audited financial statements, together with a replacement compliance certificate);

adds a condition precedent to the borrowing of loans that, after giving effect to the application of the proceeds of each borrowing, our consolidated cash balance (as defined in the Amended Credit Agreement) will not exceed \$30,000,000 plus certain other amounts; and

amends the definition of EBITDA to allow adjustments for certain Restructuring Costs and Restatement Costs (in each case as defined in the Amended Credit Agreement) to the extent such costs were incurred during the years ending December 31, 2016 and 2017.

As of September 30, 2016, we had \$130.0 million in outstanding borrowings and \$68.8 million in outstanding letters of credit under our revolving credit facility. At September 30, 2016, taking into account guarantees through letters of credit, we had undrawn capacity of \$481.2 million under our revolving credit facility. Our Credit Agreement limits our Total Debt (as defined in the Credit Agreement) to EBITDA ratio (as defined in the Credit Agreement) to not greater than 3.75 to 1.0 (which will increase to 4.50 to 1.0 following the completion of a qualified capital raise). As a result of this limitation, \$315.9 million of the \$481.2 million of undrawn capacity under our revolving credit facility was available for additional borrowings as of September 30, 2016.

## 9. 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 broad categories:

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

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.

Edgar Filing: Exterran Corp - Form 10-Q

The following table presents our assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015, with pricing levels as of the date of valuation (in thousands):

	September 30, 2016		December 31, 2015	
	(Level 2)	(Level 3)	(Level 2)	(Level 3)
Foreign currency derivatives liability	\$ 191	\$ —	\$ —	\$ —

Table of Contents

We are exposed to market risks associated with changes in foreign currency exchange rates, including foreign currency exchange rate changes recorded on intercompany obligations. From time to time we may enter into foreign currency hedges to reduce our foreign exchange risk associated with cash flows we expect to receive. During the second quarter of 2016, we entered into forward currency exchange contracts with a total notional value of \$11.3 million that expire over varying dates through October 31, 2016. At September 30, 2016, we were only party to one forward currency exchange contract with a notional value of \$2.4 million. We entered into these foreign currency derivatives to offset exchange rate exposure related to intercompany loans to a subsidiary whose functional currency is the Brazilian Real. We did not designate these forward currency exchange contracts as hedge transactions. Changes in fair value and gains and losses on settlement on these forward currency exchange contracts are recognized in other (income) expense, net, in our statements of operations. During the three and nine months ended September 30, 2016, we recognized a loss of \$0.1 million and \$0.6 million, respectively, on forward currency exchange contracts. Our estimate of the fair value of foreign currency derivatives as of September 30, 2016 was determined using quoted forward exchange rates in active markets at September 30, 2016. Foreign currency derivative liabilities are included in accrued liabilities in our balance sheets.

The following table presents our assets and liabilities measured at fair value on a nonrecurring basis during the nine months ended September 30, 2016 and 2015, with pricing levels as of the date of valuation (in thousands):

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	(Level 1)	(Level 2)	(Level 1)	(Level 2)
Impaired long-lived assets	\$ —	\$ 684	\$ —	\$ 499
Impaired assets—Discontinued operations	—	13,859	—	—
Note receivable from the sale of a plant	—	7,037	—	—
Liability to exit the use of a corporate operating lease—restructuring and other charges	—	3,580	—	—
Long-term receivable from the sale of our Canadian Operations	—	—	—	5,100

Our estimate of the impaired long-lived assets' fair value during the nine months ended September 30, 2016 and 2015 was primarily based on either the expected net sale proceeds compared to other fleet units we recently sold and/or a review of other units recently offered for sale by third parties, or the estimated component value of the equipment we plan to use. Our estimate of the fair value of the impaired assets of Belleli CPE, which were classified as discontinued operations, during the nine months ended September 30, 2016 was based on the proceeds received from the sale of Belleli CPE, net of selling costs. Our estimate of the fair value of the note receivable from the sale of our plant in Argentina during the nine months ended September 30, 2016 was discounted based on a settlement period, with annual payments, of 2.6 years and a discount rate of 5%. The fair value of our liability to exit the use of a corporate operating lease relating to restructuring activities during the second quarter of 2016 was estimated based on an incremental borrowing rate of 3% and remaining lease payments, net of estimated sublease rentals, through February 2018. In April 2015, we accepted an offer to early settle the outstanding note receivable due to us relating to the previous sale of our Canadian contract operations and aftermarket services businesses ("Canadian Operations") for \$5.1 million.

## Financial Instruments

Our financial instruments consist of cash, restricted cash, receivables, payables, foreign currency derivatives and debt. At September 30, 2016 and December 31, 2015, the estimated fair values of these financial instruments approximated their carrying amounts as reflected in our balance sheets. Due to the variable rate nature of our long-term debt, the carrying values approximate their fair values as the rates on our long-term debt are comparable to current market rates

at which debt with similar terms could be obtained.

#### 10. 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.

Table of Contents

We regularly review the future deployment of our idle compression assets used in our contract operations segment for units that are not of the type, configuration, condition, make or model that are cost efficient to maintain and operate. During the three months ended September 30, 2016, we determined that 25 idle compressor units totaling approximately 31,000 horsepower would be retired from the active fleet. The retirement of these units from the active fleet triggered a review of these assets for impairment. As a result, we recorded a \$5.4 million asset impairment to reduce the book value of each unit to its estimated fair value during the three and nine months ended September 30, 2016. The fair value of each unit was estimated based on either the expected net sale proceeds compared to other fleet units we recently sold and/or a review of other units recently offered for sale by third parties. During the three and nine months ended September 30, 2015, we determined that 19 idle compressor units and 48 idle compressor units, respectively, totaling approximately 20,000 horsepower and 44,000 horsepower, respectively, would be retired from the active fleet. As a result, we recorded a \$3.8 million and \$12.9 million asset impairment to reduce the book value of each unit to its estimated fair value during the three and nine months ended September 30, 2015, respectively. The fair value of each unit was estimated based on the estimated component value of the equipment on each compressor unit that we plan to use.

As discussed in Note 3, in the first quarter of 2016, we committed to a plan to exit our Belleli EPC business to focus on our core oil and gas businesses. Because we ceased the booking of new orders for the manufacture of tanks for tank farms and the manufacture of evaporators and brine heaters for desalination plants, customer relationship intangible assets related to our Belleli EPC business were assessed to have no future benefit to us. As a result, we recorded a long-lived asset impairment charge of \$0.7 million during the nine months ended September 30, 2016. In addition, the property, plant and equipment of our Belleli EPC business was reviewed for recoverability. As a result, the remaining useful lives of Belleli EPC non-oil and gas property, plant and equipment were reduced to reflect their estimated date of the cessation.

During the first quarter of 2015, we evaluated a long-term note receivable from the purchaser of our Canadian Operations for impairment. This review was triggered by an offer from the purchaser of our Canadian Operations to prepay the note receivable at a discount to its then current book value. The fair value of the note receivable as of March 31, 2015 was based on the amount offered by the purchaser of our Canadian Operations to prepay the note receivable. The difference between the book value of the note receivable at March 31, 2015 and its fair value resulted in the recording of an impairment of long-lived assets of \$1.4 million during the nine months ended September 30, 2015. In April 2015, we accepted the offer to early settle this note receivable.

## 11. Restatement Charges

As discussed in Note 2, 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. As a result, the Audit Committee of the Company's Board of Directors initiated an internal investigation, including the use of services of a forensic accounting firm. Management also engaged a consulting firm to assist in accounting analysis and compilation of restatement adjustments. During the three months ended September 30, 2016, we incurred \$12.3 million of costs associated with the restatement of our financial statements, which were primarily related to \$10.0 million of external accounting costs and \$1.7 million of external legal costs. During the nine months ended September 30, 2016, we incurred \$20.1 million of costs associated with the restatement of our financial statements, which were primarily related to \$14.8 million of external accounting costs and \$4.4 million of external legal costs. We currently estimate that we will incur additional cash expenditures, including estimated external legal counsel costs related to the pending SEC investigation, of approximately \$11 million associated with the restatement of our financial statements in subsequent periods, some portion of which might be recoverable from Archrock.

The following table summarizes the changes to our accrued liability balance related to restatement charges for the nine months ended September 30, 2016 (in thousands):

	Restatement Charges
Beginning balance at January 1, 2016	\$ —
Additions for costs expensed	20,149
Reductions for payments	(11,370 )
Ending balance at September 30, 2016	\$ 8,779

Table of Contents

The following table summarizes the components of charges included in restatement charges in our statements of operations for the three and nine months ended September 30, 2016 (in thousands):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
External accounting costs	\$ 10,046	\$ 14,827
External legal costs	1,665	4,387
Other	587	935
Total restatement charges	\$ 12,298	\$ 20,149

## 12. Restructuring and Other Charges

We incurred restructuring and other charges associated with the Spin-off of \$0.7 million and \$2.0 million during the three months ended September 30, 2016 and 2015, respectively, and \$3.5 million and \$6.7 million during the nine months ended September 30, 2016 and 2015, respectively. Costs incurred during the three and nine months ended September 30, 2016 were primarily related to retention awards to certain employees of \$0.7 million and \$2.6 million, respectively. Retention awards are being amortized over the required service period of each applicable employee. Costs incurred during the three and nine months ended September 30, 2015 were related to a one-time cash signing bonus paid to our new Chief Executive Officer of \$2.0 million and non-cash inventory write-downs associated with the Spin-off. Non-cash inventory write-downs primarily related to the decentralization of shared inventory components between Archrock's North America contract operations business and our international contract operations business totaled \$4.7 million during the nine months ended September 30, 2015, of which approximately \$4.2 million related to our international contract operations segment and \$0.5 million related to our oil and gas product sales segment. The charges incurred in conjunction with the Spin-off are included in restructuring and other charges in our statements of operations. We currently estimate that we will incur additional one-time expenditures of approximately \$1.3 million related to retention awards to certain employees in the form of cash and stock-based compensation through November 2017.

As a result of unfavorable market conditions in North America, combined with the impact of lower international activity due to customer budget cuts driven by lower oil prices, in the second quarter of 2015, we announced a cost reduction plan primarily focused on workforce reductions and the reorganization of certain facilities. We incurred restructuring and other charges associated with the cost reduction plan of \$1.5 million and \$5.2 million during the three months ended September 30, 2016 and 2015, respectively, and \$21.9 million and \$11.0 million during the nine months ended September 30, 2016 and 2015, respectively. Restructuring and other charges incurred during the three months ended September 30, 2016 and 2015 were primarily related to employee termination benefits and consulting fees. Costs incurred for employee termination benefits during the three months ended September 30, 2016 and 2015 were \$1.3 million and \$3.8 million, respectively, of which \$0.7 million and \$2.8 million, respectively, related to our oil and gas product sales business. Restructuring and other charges incurred during the nine months ended September 30, 2016 were primarily related to employee termination benefits and the exit from a leased corporate building. Costs incurred for employee termination benefits during the nine months ended September 30, 2016 were \$18.8 million, of which \$13.4 million related to our oil and gas product sales business. We ceased the use of a corporate building under an operating lease in the second quarter of 2016, and as a result, recorded net charges of \$2.7 million during the nine months ended September 30, 2016. Restructuring and other charges incurred during the nine months ended September 30, 2015 were primarily related to employee termination benefits, non-cash inventory write-downs and consulting fees. Costs incurred for employee termination benefits during the nine months ended September 30, 2015 were \$5.7 million, of which \$4.3 million related to our oil and gas product sales business. The non-cash inventory write-downs



of \$4.0 million were the result of our decision to exit the manufacturing of cold weather packages, which had historically been performed at an oil and gas product sales facility in North America we decided to close in 2015. The charges incurred in conjunction with the cost reduction plan are included in restructuring and other charges in our statements of operations. Accrued liabilities related to the cost reduction plan, which are expected to be settled within the next twelve months with cash payments, are based on estimates that may vary significantly from actual costs depending, in part, upon factors that may be beyond our control. We will continue to review the status of our restructuring obligations on a quarterly basis and, if appropriate, record changes to these obligations in current operations based on management's most current estimates.

Table of Contents

The following table summarizes the changes to our accrued liability balance related to restructuring and other charges for the nine months ended September 30, 2015 and 2016 (in thousands):

	Spin-off	Cost Reduction Plan	Total
Beginning balance at January 1, 2015	\$—	\$ —	\$—
Additions for costs expensed	6,700	10,997	17,697
Less non-cash expense	(4,700 )	(4,007 )	(8,707 )
Reductions for payments	(2,000 )	(6,470 )	(8,470 )
Ending balance at September 30, 2015	\$—	\$ 520	\$520
Beginning balance at January 1, 2016	\$ 1,083	\$ 565	\$ 1,648
Additions for costs expensed	3,503	22,811	26,314
Deductions for gains realized	—	(872 )	(872 )
Less non-cash expense	(798 )	(437 )	(1,235 )
Less non-cash income	—	872	872
Reductions for payments	(1,488 )	(15,431 )	(16,919)
Ending balance at September 30, 2016	\$2,300	\$ 7,508	\$9,808

The following table summarizes the components of charges included in restructuring and other charges in our statements of operations for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Consulting fees	\$—	\$ 1,329	\$22	\$ 1,329
Start-up of stand-alone functions	—	—	887	—
Retention awards to certain employees	725	—	2,616	—
Chief Executive Officer signing bonus	—	2,000	—	2,000
Non-cash inventory write-downs	—	—	—	8,707
Employee termination benefits	1,298	3,821	18,751	5,661
Net charges to exit the use of a corporate operating lease	—	—	2,708	—
Other	216	—	458	—
Total restructuring and other charges	\$2,239	\$7,150	\$25,442	\$17,697

Additionally, in the first quarter of 2016, we committed to a plan to exit our Belleli EPC business to focus on our core oil and gas businesses. Our plan to exit our Belleli EPC business resulted in a reduction in the remaining useful lives of the assets that are currently used in the Belleli EPC business and a long-lived asset impairment charge of \$0.7 million impacting results from continuing operations during the nine months ended September 30, 2016. See Note 10 for further discussion relating to this impairment charge and Note 3 for further discussion related to our plan to exit our Belleli businesses.

### 13. Deferred Income Taxes

As of December 31, 2015, we had approximately \$152.0 million of U.S. deferred tax assets. These deferred tax assets primarily related to U.S. federal net operating loss carryforwards of \$65.9 million that can be used to offset future U.S. federal taxable income, and carryforwards for foreign tax credits of \$72.0 million, research and development

credits of \$31.3 million and alternative minimum tax credits of \$5.1 million that can reduce our U.S. federal income taxes payable in future periods. Most of these carryforwards will expire if they are not used within certain periods. At December 31, 2015, we considered it more-likely-than-not that we will have sufficient taxable income of the appropriate character in the future that will allow us to realize these U.S. deferred tax assets, other than in cases where valuation allowances were previously recorded. As of December 31, 2015, approximately \$49.7 million of valuation allowances were recorded against our U.S. deferred tax assets.

## Table of Contents

Management assesses all available positive and negative evidence to estimate our ability to generate sufficient future taxable income of the appropriate character, and in the appropriate taxing jurisdictions, to permit use of our existing deferred tax assets. A significant piece of objective negative evidence is a cumulative loss incurred over a three-year period in a taxing jurisdiction. Prevailing accounting practice is that such objective evidence would limit the ability to consider other subjective evidence, such as our projections for future growth.

Based on information available at June 30, 2016, we expect to incur a three-year cumulative loss in the U.S. by the end of 2016. Due to this significant negative evidence of cumulative losses, which outweighs the positive evidence of firm sales backlog and projected further taxable income, we are no longer able to support that it is more-likely-than-not that we will have sufficient taxable income of the appropriate character in the future that will allow us to realize our U.S. deferred tax assets. During the three and nine months ended September 30, 2016, we recorded additional valuation allowances against our U.S. deferred tax assets of \$13.6 million and \$101.7 million, respectively, \$65.5 million of the \$101.7 million related to U.S. deferred tax assets that existed at December 31, 2015.

### 14. Related Party Transactions

#### Spin Agreements

In connection with the completion of the Spin-off, on November 3, 2015, we entered into several agreements with Archrock and certain subsidiaries of Archrock and, with respect to certain agreements, a subsidiary of Archrock Partners (named Exterran Partners, L.P. prior to November 3, 2015) (“Archrock Partners”), that govern the Spin-off and the relationship among the parties following the Spin-off, including the following agreements (collectively, the “Spin Agreements”): separation and distribution agreement, tax matters agreement, employee matters agreement, transition services agreement, supply agreement, storage agreements and services agreements. Pursuant to the transition services agreement, during the three and nine months ended September 30, 2016 we recorded selling, general and administrative expense of less than \$0.1 million and \$0.6 million, respectively, and other income of \$0.1 million and \$1.2 million, respectively.

#### Transactions with Affiliates

All intercompany transactions and accounts within these financial statements have been eliminated. All affiliate transactions occurring prior to the Spin-off between the international services and product sales businesses of Archrock and the other businesses of Archrock have been included in these financial statements. Prior to the Spin-off sales of newly-manufactured compression equipment from the oil and gas product sales business of EESLP to Archrock Partners were used in the U.S. services business of Archrock and were made pursuant to an omnibus agreement between the parties and other affiliates of both entities. Through November 3, 2015, per the omnibus agreement, revenue was determined by the cost to manufacture such equipment plus a fixed margin. During the three months ended September 30, 2015, we recorded oil and gas product sales revenue from affiliates of \$36.6 million and cost of sales of \$33.6 million from the sale of newly-manufactured compression equipment to Archrock Partners. During the nine months ended September 30, 2015, we recorded oil and gas product sales revenue from affiliates of \$146.3 million and cost of sales of \$134.6 million from the sale of newly-manufactured compression equipment to Archrock Partners. Subsequent to November 3, 2015, sales to Archrock Partners are considered sales to third parties.

Prior to the closing of the Spin-off, EESLP also had a fleet of compression units used to provide compression services in the U.S. services business of Archrock. Revenue prior to the Spin-off was not recognized in our statements of operations for the sale of compressor units by us that were used by EESLP to provide compression services to customers of the U.S. services business of Archrock. The costs of these units were treated as a reduction of parent

equity in the balance sheets and a distribution to parent in the statements of cash flows and totaled \$32.3 million during the nine months ended September 30, 2015. Subsequent to November 3, 2015, sales to Archrock are considered sales to third parties.

Table of Contents

## Allocation of Expenses

For the periods prior to the Spin-off, the statements of operations also includes expense allocations for certain functions performed by Archrock which have not been historically allocated to its operating segments, including allocations of expenses related to executive oversight, accounting, treasury, tax, legal, human resources, procurement and information technology. Included in our selling, general and administrative expense during the three and nine months ended September 30, 2015 were \$14.3 million and \$42.4 million, respectively, of allocated corporate expenses incurred by Archrock prior to the Spin-off. These costs were allocated to us systematically based on specific department function and revenue. Management believes the assumptions underlying the financial statements, including the assumptions regarding allocating expenses from Archrock, are reasonable. Nevertheless, the financial statements may not be representative of the actual expenses that would have been incurred had we been a stand-alone public company during the periods presented and, consequently, may not reflect our combined results of operations, financial position and cash flows had we been a stand-alone public company during the periods presented. Actual costs that would have been incurred if we had been a stand-alone public company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

## Cash Management

Prior to the closing of the Spin-off, EESLP provided centralized treasury functions for Archrock's U.S. operations, whereby EESLP regularly transferred cash both to and from U.S. subsidiaries of Archrock, as necessary. In conjunction therewith, the intercompany transactions between our U.S. subsidiaries and the other U.S. subsidiaries of Archrock were considered to be effectively settled in cash in these financial statements for the periods prior to the Spin-off. Intercompany receivables/payables from/to related parties arising from transactions with affiliates and expenses allocated from Archrock described above were included in net distributions to parent in the financial statements.

## Net Distributions to Parent

Parent equity, which included retained earnings prior to the Spin-off, represents Archrock's interest in our recorded net assets. Prior to the Spin-off, all transactions between us and Archrock were presented in the accompanying statements of stockholders' equity as net distributions to parent. A reconciliation of net distributions to parent in the statements of stockholders' equity to the corresponding amount presented in the statements of cash flows for the nine months ended September 30, 2015 as follows (in thousands):

	Nine Months Ended September 30, 2015 As Restated
Net distributions to parent per the statements of stockholders' equity	\$ (27,331 )
Stock-based compensation expenses prior to the Spin-off	(5,358 )
Stock-based compensation excess tax benefit prior to the Spin-off	1,140
Net transfers of property, plant and equipment from parent prior to the Spin-off	(9,262 )
Net distributions to parent per statements of cash flows	\$ (40,811 )

## 15. Stockholders' Equity

Comprehensive Income (Loss)

Components of comprehensive income (loss) are net income (loss) and all changes in stockholders' equity during a period except those resulting from transactions with owners. Our accumulated other comprehensive income consists of foreign currency translation adjustments.

Table of Contents

The following table presents the changes in accumulated other comprehensive income, net of tax, during the nine months ended September 30, 2015 and 2016 (in thousands):

	Foreign Currency Translation Adjustment
Accumulated other comprehensive income, January 1, 2015 (As Restated)	\$ 26,745
Income recognized in other comprehensive income (loss) (As Restated)	4,218
Accumulated other comprehensive income, September 30, 2015 (As Restated)	\$ 30,963
Accumulated other comprehensive income, January 1, 2016	\$ 29,198
Income recognized in other comprehensive income (loss)	5,452
Loss reclassified from accumulated other comprehensive income	15,159 (1)
Accumulated other comprehensive income, September 30, 2016	\$ 49,809

During the three and nine months ended September 30, 2016, we reclassified a loss of \$15.2 million related to foreign currency translation adjustment to income from discontinued operations in our statement of operations. (1) This amount represents cumulative foreign currency translation adjustments associated with our Belleli CPE business that previously had been recognized in accumulated other comprehensive income. See Note 3 for further discussion of the sale of our Belleli CPE business.

## 16. Stock-Based Compensation

### 2015 Stock Incentive Plan

On October 30, 2015, our compensation committee and board of directors each approved the Exterran Corporation 2015 Stock Incentive Plan (the "2015 Plan") to provide for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, other stock-based awards and dividend equivalents rights to employees, directors and consultants of Exterran Corporation. The 2015 Plan became effective on November 1, 2015. The 2015 Plan will also govern awards granted under the Archrock, Inc. 2013 Stock Incentive Plan and the Archrock, Inc. 2007 Amended and Restated Stock Incentive Plan which were adjusted into awards denominated in our common stock in accordance with the terms of the employee matters agreement and/or actions taken by our board of directors or the Archrock board of directors.

Stock-based compensation expense prior to the Spin-off only related to employees directly involved in our operations, and therefore, excluded stock-based compensation expense related to Archrock employees that supported both the international services and product sales businesses and the other businesses of Archrock that it retained after the Spin-off. Stock-based compensation expense subsequent to the Spin-off relates to employees, directors and consultants of Exterran Corporation, and such awards may consist of awards for either our common stock or Archrock's common stock.

### 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.





Table of Contents

The table below presents the changes in stock option awards for our common stock during the nine months ended September 30, 2016. Options outstanding relate to employees, directors and consultants of us and Archrock.

	Stock Options (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2016	434	\$ 18.53		
Granted	—	—		
Exercised	(56 )	12.40		
Cancelled	(76 )	26.89		
Options outstanding, September 30, 2016	302	17.56	2.4	\$ 917
Options exercisable, September 30, 2016	290	16.94	2.3	917

Intrinsic value is the difference between the market value of our common stock and the exercise price of each stock option multiplied by the number of stock options outstanding for those stock options where the market value exceeds their exercise price. The total intrinsic value of stock options exercised to purchase our common stock during the nine months ended September 30, 2016 was \$0.1 million. As of September 30, 2016, we expect to recognize less than \$0.1 million of additional compensation cost related to unvested stock options issued to our employees, directors and consultants, related to options to purchase either our common stock or Archrock's common stock.

#### Restricted Stock, Restricted Stock Units, Performance Units, Cash Settled Restricted Stock Units and Cash Settled Performance Units

For grants of restricted stock, restricted stock units and performance units, we recognize compensation expense over the vesting period equal to the fair value of our common stock at the grant date. We remeasure the fair value of cash settled restricted stock units and cash settled performance units and record a cumulative adjustment of the expense previously recognized. Our obligation related to the cash settled restricted stock units and cash settled performance units is reflected as a liability in our balance sheets. Grants of restricted stock, restricted stock units, performance units, cash settled restricted stock units and cash settled performance units generally vest one-third per year on each of the first three anniversaries of the grant date.

The table below presents the changes in restricted stock, restricted stock unit, performance unit, cash settled restricted stock unit and cash settled performance unit for our common stock during the nine months ended September 30, 2016. Non-vested awards relate to employees, directors and consultants of us and Archrock. Awards granted subsequent to November 3, 2015 only relate to our employees, directors and consultants.

	Shares (in thousands)	Weighted Average Grant-Date Fair Value Per Share
Non-vested awards, January 1, 2016	1,004	\$ 22.17
Granted	773	15.46
Vested	(406 )	23.16
Change in expected vesting of performance units	172	15.46
Cancelled	(84 )	22.30

Non-vested awards, September 30, 2016 (1)      1,459      17.54

---

(1) Non-vested awards as of September 30, 2016 are comprised of 25,000 cash settled restricted stock units and cash settled performance units and 1,434,000 restricted shares, restricted stock units and performance units.

As of September 30, 2016, we expect \$18.7 million of unrecognized compensation cost related to unvested restricted stock, restricted stock units, performance units, cash settled restricted stock units and cash settled performance units issued to our employees, in the form of either our common stock or Archrock's common stock, to be recognized over the weighted-average vesting period of 2.0 years.

28

---

Table of Contents

## 17. 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 our unvested restricted stock and certain stock settled restricted stock units that have nonforfeitable 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.

To effect the Spin-off, on November 3, 2015, Archrock distributed 34,286,267 shares of our common stock to its stockholders. For the periods prior to November 3, 2015, the average number of common shares outstanding used to calculate basic and diluted net income per common share was based on the shares of our common stock that were distributed on November 3, 2015. The same number of shares was used to calculate basic and diluted net income per common share for these periods since we had no equity awards outstanding prior to November 3, 2015 and we were a wholly owned subsidiary of Archrock prior to the Spin-off date.

The following table presents a reconciliation of basic and diluted net income (loss) per common share for the three and nine months ended September 30, 2016 and 2015 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015 As Restated	2016	2015 As Restated
Numerator for basic and diluted net income (loss) per common share:				
Loss from continuing operations	\$(32,312)	\$(9,598)	\$(167,724)	\$(5,683)
Income (loss) from discontinued operations, net of tax	19,652	18,275	(33,439)	36,414
Less: Net income attributable to participating securities	—	—	—	—
Net income (loss) — used in basic and diluted net income (loss) per common share	\$(12,660)	\$8,677	\$(201,163)	\$30,731
Weighted average common shares outstanding including participating securities	35,562	34,286	35,492	34,286
Less: Weighted average participating securities outstanding	(930)	—	(942)	—
Weighted average common shares outstanding — used in basic net income (loss) per common share	34,632	34,286	34,550	34,286
Net dilutive potential common shares issuable:				
On exercise of options and vesting of restricted stock units	*	—	—	—
	34,632	34,286	34,550	34,286

Edgar Filing: Exterran Corp - Form 10-Q

Weighted average common shares outstanding — used in diluted net income  
(loss) per common share

Net income (loss) per common share:

Basic	\$ (0.37 )	\$ 0.25	\$ (5.82 )	\$ 0.90
Diluted	\$ (0.37 )	\$ 0.25	\$ (5.82 )	\$ 0.90

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

Table of Contents

The following table shows the potential shares of common stock issuable that were excluded from computing diluted net income (loss) per common share as their inclusion would have been anti-dilutive (in thousands):

	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Net dilutive potential common shares issuable:				
On exercise of options where exercise price is greater than average market value for the period	216	*	232	*
On exercise of options and vesting of restricted stock units	46	*	51	*
Net dilutive potential common shares issuable	262	—	283	—

\*Not applicable for the period.

## 18. Commitments and Contingencies

## Guarantees

We have issued the following guarantees that are not recorded on our accompanying balance sheet (dollars in thousands):

	Term	Maximum Potential Undiscounted Payments as of September 30, 2016
Performance guarantees through letters of credit (1)	2016 - 2020	\$ 154,965
Standby letters of credit	2016 - 2018	1,298
Bid bonds and performance bonds (1)	2016 - 2023	57,862
Maximum potential undiscounted payments		\$ 214,125

(1) We have issued guarantees to third parties to ensure performance of our obligations, some of which may be fulfilled by third parties.

## Contingencies

See Note 3 and Note 7 for a discussion of our gain contingencies related to assets that were expropriated in Venezuela.

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 \$49.2 million to Archrock during the nine months ended September 30, 2016. The transfer of cash was recognized as a reduction to additional paid-in capital in our financial statements. As of September 30, 2016, the remaining principal amount due to us from PDVSA Gas in respect of the sale of our and our joint ventures' previously nationalized assets was approximately \$37 million. 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.

## Table of Contents

Pursuant to the separation and distribution agreement, EESLP (in the case of debt offerings) or Exterran Corporation (in the case of equity issuances) will use its commercially reasonable efforts to complete one or more unsecured debt offerings or equity issuances resulting in aggregate gross cash proceeds of at least \$250.0 million on the terms described in the Credit Agreement (such transaction, a “qualified capital raise”) on or before the maturity date of our \$245.0 million term loan facility. In connection with the Spin-off, EESLP contributed to a subsidiary of Archrock the right to receive, promptly following the occurrence of a qualified capital raise, a \$25.0 million cash payment. Our balance sheets do not reflect this contingent liability to Archrock. 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 September 30, 2016 and December 31, 2015, we had accrued \$2.2 million and \$3.1 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 and commercial automobile liability and other coverage we believe is appropriate. In addition, we have a minimal amount of insurance on our offshore assets. 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.

### Contracts Containing Liquidated Damages Provisions

Some of our product sales contracts have schedule dates and performance obligations that if not met could subject us to penalties for liquidated damages. These generally relate to specified activities that must be completed by a set contractual date or by achievement of a specified level of output or throughput. Each contract defines the conditions under which a customer may make a claim for liquidated damages. However, in some instances, liquidated damages are not asserted by the customer, but the potential to do so is used in negotiating or settling claims and closing out the contract. As of September 30, 2016, estimated penalties for liquidated damages of \$20.9 million have been recorded in our financial statements, based on our actual or projected failure to meet certain specified contractual milestone dates. We believe that we will be successful in obtaining schedule extensions or other customer-agreed changes that should resolve the potential for additional liquidated damages. Accordingly, we believe that no amounts for these potential liquidated damages in excess of the amounts currently reflected in our financial statements are probable of being



incurred by us. However, we may not achieve relief on some or all of the issues involved and, as a result, could be subject to higher liquidated damages amounts. Additionally, we have asserted claims, or intend to assert claims, against certain customers that, if settled, could result in a release of such claims in exchange for release of certain liquidated damages currently recorded in our financial statements. We recognize claims for recovery of incurred cost when it is probable that the claim will result in additional contract revenue and when the amount of the claim can be reliably estimated. These requirements are satisfied when the contract or other evidence provides a legal basis for the claim, additional costs were caused by circumstances that were unforeseen at the contract date and not the result of deficiencies in our performance, claim-related costs are identifiable and considered reasonable in view of the work performed, evidence supporting the claim is objective and verifiable and collection is probable. These assessments require judgments concerning matters such as litigation developments and outcomes, the anticipated outcome of negotiations, the number of future claims and the cost of both pending and future claims.

## Table of Contents

### 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, including responding to a subpoena for documents related to the restatement and compliance with the FCPA, which are also being provided to the Department of Justice at its request. The FCPA related requests in the SEC subpoena pertain to our policies and procedures, information about our third-party sales agents, and documents related to historical internal investigations completed prior to November 2015.

### 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 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. 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.

### 19. Reportable Segments

We manage our business segments primarily based upon the type of product or service provided. We have four reportable segments: contract operations, aftermarket services, oil and gas product sales and Belleli EPC product sales. The contract operations segment primarily provides natural gas compression services, production and processing equipment services and maintenance services to meet specific customer requirements on assets owned by us. The aftermarket services segment provides a full range of services to support the surface production, compression and processing needs of customers, from parts sales and normal maintenance services to full operation of a customer's owned assets. The oil and gas product sales segment provides design, engineering, manufacturing, installation and sale of natural gas compression units and accessories and equipment used in the production, treating and processing of crude oil and natural gas. The Belleli EPC product sales segment, which comprises the operations of our Belleli EPC subsidiary, provides 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 third quarter of 2016, we changed our reporting segments to better align with the Company's organizational structure and reflect the way in which the Chief Operating Decision Maker now reviews the Company's operating results. The change in structure had the impact of splitting our previously disclosed product sales segment into the

following two new reportable segments: “oil and gas product sales” and “Belleli EPC product sales.” The contract operations and aftermarket services segments were not impacted by this change. The changes in our reportable segments, including the reclassification of the related revenues and costs of sales (excluding depreciation and amortization) in our statements of operations, have been made to all periods presented within this Quarterly Report on Form 10-Q.

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

Table of Contents

The following table presents revenues and other financial information by reportable segment during the three and nine months ended September 30, 2016 and 2015 (in thousands):

Three Months Ended	Contract Operations	Aftermarket Services	Oil and Gas Product Sales	Belleli EPC Product Sales (1)	Reportable Segments Total (1)(2)
September 30, 2016:					
Revenue	\$ 99,143	\$ 26,590	\$ 73,685	\$ 29,740	\$ 229,158
Gross margin (3)	63,087	7,544	3,611	636	74,878
September 30, 2015:					
Revenue	\$ 114,104	\$ 25,272	\$ 253,692	\$ 18,105	\$ 411,173
Gross margin (3)	72,990	6,936	39,335	(8,187 )	111,074
Nine Months Ended	Contract Operations	Aftermarket Services	Oil and Gas Product Sales	Belleli EPC Product Sales (1)	Reportable Segments Total (1)(2)
September 30, 2016:					
Revenue	\$ 298,591	\$ 91,499	\$ 314,684	\$ 93,161	\$ 797,935
Gross margin (3)	187,636	26,016	24,519	(792 )	237,379
September 30, 2015:					
Revenue	\$ 350,045	\$ 95,547	\$ 875,439	\$ 70,743	\$ 1,391,774
Gross margin (3)	219,847	27,727	139,137	(32,740 )	353,971

Financial information for the Belleli EPC product sales segment for the three and nine months ended September (1) 30, 2015 has been restated. Refer to Note 2 for further information regarding the restatement of previously reported financial information.

Consolidated and combined gross margin, a non-GAAP financial measure, is reconciled, in total, to income (loss) (2) before income taxes, its most directly comparable measure calculated and presented in accordance with GAAP, below.

(3) Gross margin is defined as total revenue less cost of sales (excluding depreciation and amortization expense).

Consolidated and combined gross margin is included as a supplemental disclosure because it is a primary measure used by our management to evaluate the results of revenue and cost of sales (excluding depreciation and amortization expense), which are key components of our operations. As an indicator of our operating performance, consolidated and combined gross margin should not be considered an alternative to, or more meaningful than, income (loss) before income taxes as determined in accordance with GAAP. Our gross margin may not be comparable to a similarly titled measure of another company because other entities may not calculate gross margin in the same manner.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	As		As	
	Restated		Restated	
Income (loss) before income taxes	\$(15,969)	\$(13,735 )	\$(47,037 )	\$18,872
Selling, general and administrative	37,864	54,202	124,250	167,452
Depreciation and amortization	28,183	36,083	106,533	110,151
Long-lived asset impairment	5,358	3,775	6,009	14,264
Restatement charges	12,298	—	20,149	—
Restructuring and other charges	2,239	7,150	25,442	17,697
Interest expense	8,254	581	25,596	1,407
Equity in income of non-consolidated affiliates	—	(5,084 )	(10,403 )	(15,152 )
Other (income) expense, net	(3,349 )	28,102	(13,160 )	39,280
Consolidated and combined gross margin	\$74,878	\$111,074	\$237,379	\$353,971

The following table presents assets from reportable segment (in thousands):

	September 30, December 31,	
	2016	2015
	As Restated	
Contract operations	\$ 752,997	\$ 790,957
Aftermarket services	32,014	31,614
Oil and gas product sales	159,824	230,947
Belleli EPC product sales	41,200	46,592
Assets from reportable segments	986,035	1,100,110
Other assets (1)	417,463	617,082
Assets associated with discontinued operations	22	71,204
Total assets	\$ 1,403,520	\$ 1,788,396

(1)Includes corporate related items.

## 20. Subsequent Events

On November 22, 2016, we and our wholly owned subsidiary, EESLP, entered into an amendment to the Credit Agreement with Wells Fargo, as the administrative agent, and various financial institutions as lenders. Under this amendment, the lenders extended the waivers previously granted under the previous amendments to February 28, 2017 unless on or prior to that date, we deliver the replacement financial information, and further extended the deadline to no later than February 28, 2017 by which we are required to deliver to the lenders our quarterly reports for the fiscal quarters ended March 31, 2016, June 30, 2016 and September 30, 2016 and the related compliance certificates demonstrating compliance with the financial covenants set forth in the Credit Agreement.

Table of Contents

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 and Combined Financial Statements in Part I, Item 1 ("Financial Statements") of this report and in conjunction with our Annual Report on Form 10-K/A for the year ended December 31, 2015 (the "2015 Form 10-K/A"). As described in Note 2 to the Financial Statements, we restated our previously reported financial statements as of December 31, 2015 and for the three and nine months ended September 30, 2015. The impact of the restatement is reflected in Management's Discussion and Analysis of Financial Condition and Results of Operations below.

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 restatement of our financial statements and pending 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/A for the year ended December 31, 2015, 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 continue to depress or further decrease the demand or pricing for our natural gas compression and oil and natural gas production and processing equipment and services;

our reduced profit margins or the loss of market share resulting from competition or the introduction of competing technologies by other companies;

our reliance on Archrock, Inc. (named Exterran Holdings, Inc. prior to November 3, 2015) ("Archrock") and Archrock Partners, L.P. (named Exterran Partners, L.P. prior to November 3, 2015) ("Archrock Partners") for a significant amount of our oil and gas product sales revenues and our ability to secure new oil and gas product sales customers;

changes in economic or political conditions in the countries in which we do business, including civil 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;

• the inherent risks associated with our operations, such as equipment defects, 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;

Table of Contents

- employment and workforce factors, including our ability to hire, train and retain key employees;
- our ability to implement certain business and financial objectives, such as:
  - 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; and
  - accessing the capital markets at an acceptable cost;
  - 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;
  - our ability to successfully remediate each of the material weaknesses in our internal control environment disclosed in this report within the time periods and in the manner currently anticipated;
  - the effectiveness of our internal control environment, including the identification of additional control deficiencies;
  - the results of governmental actions relating to pending investigations;
  - the results of shareholder actions relating to the restatement of our financial statements;
  - the agreements related to the spin-off (see “Spin-off” below) thereto and the anticipated effects of restructuring our business; 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.



## Table of Contents

### General

Exterran Corporation (together with its subsidiaries, “Exterran Corporation,” “our,” “we” or “us”), a Delaware corporation formed in March 2015, is a market leader in the provision of compression, production and processing products and services that support the production and transportation of oil and natural gas throughout the world. 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 four primary business lines: contract operations, aftermarket services, oil and gas product sales and Belleli EPC product sales. In our contract operations business line, we have operations outside of the U.S. where we own and operate natural gas compression equipment and crude oil and natural gas production and processing equipment on behalf of our customers. In our aftermarket services business line, we primarily have operations outside of the U.S. where we provide operations, maintenance, overhaul and reconfiguration services to customers who own their own compression, production, processing, treating and related equipment. In our oil and gas product sales business line, we manufacture natural gas compression packages and oil and natural gas production and processing equipment for sale to our customers throughout the world and for use in our contract operations business line. In our Belleli EPC product sales business line, we provide engineering, procurement and construction for the manufacture of tanks for tank farms and the manufacture of evaporators and brine heaters for desalination plants. 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.

As discussed in Note 19 to the Financial Statements, we changed our reporting segments in the third quarter of 2016 to split our previously disclosed product sales segment into the following two new reportable segments: “oil and gas product sales” and “Belleli EPC product sales.” The contract operations and aftermarket services segments were not impacted by this change. The change in our reportable segments is reflected in this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

### Spin-off

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 (the international contract operations and international aftermarket services businesses combined are referred to as the “international services businesses” and include such activities conducted outside of the United States of America (“U.S.”)) and global fabrication businesses into an independent, publicly traded company named Exterran Corporation. We refer to the global fabrication business previously operated by Archrock as our product sales businesses (including our oil and gas product sales and Belleli EPC product sales segments). To effect the Spin-off, on November 3, 2015, Archrock distributed, on a pro rata basis, all of our shares of common stock to its stockholders of record as of October 27, 2015 (the “Record Date”). Archrock shareholders received one share of Exterran Corporation common stock for every two shares of Archrock common stock held at the close of business on the Record Date. Pursuant to the separation and distribution agreement with Archrock and certain of our and Archrock’s respective affiliates, on November 3, 2015, we transferred cash of \$532.6 million to Archrock. Following the completion of the Spin-off, we and Archrock are independent, publicly traded companies with separate boards of directors and management.

### Restatement of Previously Reported Consolidated and Combined Financial Statements

The impact of the restatement is reflected in this Management’s Discussion and Analysis of Financial Condition and Results of Operations. For a summary of the effect of the restatement as of December 31, 2015 and for the three and

nine months ended September 30, 2015 see Note 2 to the Financial Statements.

As a result of the internal investigation discussed in Note 2 to the Financial Statements, we incurred in \$20.1 million of costs associated with the restatement of our financial statements during the nine months ended September 30, 2016, which were primarily related to \$14.8 million of external accounting costs and \$4.4 million of external legal costs. We currently estimate that we will incur additional cash expenditures, including estimated external legal counsel costs related to the pending SEC investigation, of approximately \$11 million associated with the restatement of our financial statements in subsequent periods, some portion of which might be recoverable from Archrock.

Table of Contents

## Exit of our Belleli Businesses

In the first quarter of 2016, we committed to a plan to exit certain Belleli businesses to focus on our core oil and gas businesses. Specifically we planned to exit the Belleli CPE business comprising of engineering, procurement and manufacturing services related to the manufacture of critical process equipment for refinery and petrochemical facilities (referred to as “Belleli CPE” or the “Belleli CPE business” herein). In addition, we planned to exit the Belleli EPC business comprising 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). Belleli CPE met the held for sale criteria and is reflected as discontinued operations in our financial statements for all periods presented. As discussed in Note 3 to the Financial Statements, we completed the sale of our Belleli CPE business in August 2016. Belleli CPE was previously included in our former product sales segment. In conjunction with the planned disposition of Belleli CPE, we recorded impairments of long-lived assets and current assets that totaled \$68.8 million during the nine months ended September 30, 2016. The impairment charges are reflected in income (loss) from discontinued operations, net of tax. In accordance with accounting principles generally accepted in the U.S. (“GAAP”), Belleli EPC will not be reflected as discontinued operations until the substantial cessation of the remaining non-oil and gas business. During the first quarter of 2016, we ceased the booking of new orders for our Belleli EPC business. Belleli EPC is represented by our Belleli EPC product sales segment. Our plan to exit our Belleli EPC business resulted in a reduction in the remaining useful lives of the assets that are currently used in the Belleli EPC business and a long-lived asset impairment charge of \$0.7 million impacting results from continuing operations during the nine months ended September 30, 2016.

The following tables summarize the operating results of our Belleli businesses and our core oil and gas businesses (in thousands):

	Exterran Corporation Excluding Belleli	Belleli CPE	EPC	Exterran Corporation Consolidated and Combined
Three Months Ended September 30, 2016				
Revenue	\$ 199,418	\$—	\$ 29,740	\$ 229,158
Cost of sales (excluding depreciation and amortization expense)	125,176	—	29,104	154,280
Depreciation and amortization	26,388	—	1,795	28,183
Loss from continuing operations	(28,825	) —	(3,487	) (32,312
Income from discontinued operations, net of tax (1)	19,461	191	—	19,652
Net income (loss)	(9,364	) 191	(3,487	) (12,660
Product sales backlog (at period end)	153,099	—	95,366	(2)248,465
Third party bookings	132,272	—	19,645	(2)151,917
Three Months Ended September 30, 2015 (As Restated)				
Revenue	\$ 393,068	\$—	\$ 18,105	\$ 411,173
Cost of sales (excluding depreciation and amortization expense)	273,807	—	26,292	300,099
Depreciation and amortization	33,164	—	2,919	36,083
Income (loss) from continuing operations	4,497	—	(14,095	) (9,598
Income (loss) from discontinued operations, net of tax (1)	18,756	(481	—	18,275
Net income (loss)	23,253	(481	(14,095	) 8,677
Product sales backlog (at period end)	301,412	—	(3) 179,056	480,468
Third party bookings	99,887	—	(3) 58,850	158,737



Table of Contents

	Exterran Corporation Excluding Belleli	Belleli CPE	EPC	Exterran Corporation Consolidated and Combined
Nine Months Ended September 30, 2016				
Revenue	\$ 704,774	\$—	\$ 93,161	\$ 797,935
Cost of sales (excluding depreciation and amortization expense)	466,603	—	93,953	560,556
Depreciation and amortization	100,364	—	6,169	106,533
Loss from continuing operations	(149,273 )	—	(18,451 )	(167,724 )
Income (loss) from discontinued operations, net of tax (1)	38,961	(72,400)	—	(33,439 )
Net loss	(110,312 )	(72,400)	(18,451 )	(201,163 )
Product sales backlog (at period end)	153,099	—	95,366	248,465
Third party bookings	200,365	—	26,103	226,468
Nine Months Ended September 30, 2015 (As Restated)				
Revenue	\$ 1,321,031	\$—	\$ 70,743	\$ 1,391,774
Cost of sales (excluding depreciation and amortization expense)	934,320	—	103,483	1,037,803
Depreciation and amortization	101,540	—	8,611	110,151
Income (loss) from continuing operations	44,825	—	(50,508 )	(5,683 )
Income (loss) from discontinued operations, net of tax (1)	37,878	(1,464 )	—	36,414
Net income (loss)	82,703	(1,464 )	(50,508 )	30,731
Product sales backlog (at period end)	301,412	— (3)	179,056	480,468
Third party bookings	265,126	— (3)	65,061	330,187

(1) See Note 3 to the Financial Statements for further discussion regarding discontinued operations.

During the first quarter of 2016, we ceased the booking of new orders for our Belleli EPC business. Changes in our (2) Belleli EPC backlog since March 31, 2016 reflect revenue recognized and change orders booked on existing contracts.

As of September 30, 2015 product sales backlog for Belleli CPE was \$58.8 million. Third party bookings for Belleli CPE were \$2.5 million and \$74.4 million during the three and nine months ended September 30, 2015, (3) respectively. As Belleli CPE is no longer a part of our continuing operations, Belleli CPE's product sales backlog and third party bookings have been excluded from all periods presented. As discussed in Note 3 to the Financial Statements, we completed the sale of Belleli CPE in August 2016.

#### Basis of Presentation

All financial information presented for periods after the Spin-off represents our consolidated results of operations, financial position and cash flows (referred to as the "condensed consolidated financial statements") and all financial information for periods prior to the Spin-off represents our combined results of operations, financial position and cash flows (referred to as the "condensed combined financial statements"). Accordingly:

- Our condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2016 and our condensed consolidated statements of cash flows and stockholders' equity for the nine months ended September 30, 2016 consist entirely of our consolidated results. Our condensed combined statements of operations and comprehensive income (loss) for the three and nine months

Edgar Filing: Exterran Corp - Form 10-Q

ended September 30, 2015 and our condensed combined statements of cash flows and stockholders' equity for the nine months ended September 30, 2015 consist entirely of the combined results of Archrock's international services and product sales businesses.

Our condensed consolidated balance sheets at September 30, 2016 and December 31, 2015 consist entirely of our consolidated balances.

## Table of Contents

The condensed combined financial statements were derived from the accounting records of Archrock and reflect the combined historical results of operations, financial position and cash flows of Archrock's international services and product sales businesses. The condensed combined financial statements were presented as if such businesses had been combined for periods prior to November 4, 2015. All intercompany transactions and accounts within these statements have been eliminated. Affiliate transactions between the international services and product sales businesses of Archrock and the other businesses of Archrock have been included in the condensed combined financial statements, with the exception of oil and gas product sales within our wholly owned subsidiary, Exterran Energy Solutions, L.P. ("EESLP"). Prior to the closing of the Spin-off, EESLP also had a fleet of compression units used to provide compression services in the U.S. services business of Archrock. Revenue has not been recognized in the condensed combined statements of operations for the sale of compressor units by us that were used by EESLP to provide compression services to customers of the U.S. services business of Archrock. See Note 14 to the Financial Statements for further discussion on transactions with affiliates.

The condensed combined statements of operations include expense allocations for certain functions historically performed by Archrock and not allocated to its operating segments, including allocations of expenses related to executive oversight, accounting, treasury, tax, legal, human resources, procurement and information technology. See Note 14 to the Financial Statements for further discussion regarding the allocation of corporate expenses.

We refer to the condensed consolidated and combined financial statements collectively as "financial statements," and individually as "balance sheets," "statements of operations," "statements of comprehensive income (loss)," "statements of stockholders' equity" and "statements of cash flows" herein.

### 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 is typically less impacted by 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.

Natural gas consumption in the U.S. for the twelve months ended September 30, 2016 remained relatively flat compared to the twelve months ended September 30, 2015. The U.S. Energy Information Administration ("EIA") forecasts that total U.S. natural gas consumption will increase by 0.8% in 2016 compared to 2015. As reported by the BP Energy Outlook 2035, February 2016 edition ("BP Energy Outlook 2035"), North American natural gas consumption and worldwide natural gas consumption is expected to grow annually by an average of approximately 1.5% and 2.0%, respectively, per year between 2015 and 2035.

Natural gas marketed production in the U.S. for the twelve months ended September 30, 2016 decreased by approximately 0.4% compared to the twelve months ended September 30, 2015. The EIA forecasts that total U.S. natural gas marketed production will decrease by 1.6% in 2016 compared to 2015. In addition, according to the BP Energy Outlook 2035, North American natural gas production and worldwide natural gas production is expected to grow annually by an average of approximately 2.4% and 1.9%, respectively, per year between 2015 and 2035.

Global oil and natural gas prices have declined significantly since the third quarter of 2014, which led to declines in U.S. and worldwide capital spending for drilling activity in 2015. In 2016, given the current market environment, we expect continued declines in worldwide capital spending for drilling activity.

#### 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 among using our products and services, using our competitors' products and services or owning and operating the equipment themselves.



Table of Contents

Overall market activity in North America remains at depressed levels due to the significant decrease in oil and natural gas prices since the third quarter of 2014. The Henry Hub spot price for natural gas was \$2.84 per MMBtu at September 30, 2016, which was approximately 15% higher than prices at September 30, 2015 but 31% lower than prices at September 30, 2014, respectively, and the U.S. natural gas liquid composite price was approximately \$4.92 per MMBtu for the month of July 2016, which was approximately 1% higher than prices for the month of September 2015 but 50% lower than prices for the month of September 2014, respectively. These lower prices have led to reduced drilling of gas wells in North America. In addition, the West Texas Intermediate crude oil spot price as of September 30, 2016 was approximately 6% higher than prices at September 30, 2015 but 48% lower than prices at September 30, 2014, respectively, which has led to reduced drilling of oil wells. More recently, West Texas Intermediate crude oil prices have slightly increased since the first half of 2016, represented by a spot price increase of 2% at October 31, 2016 compared to September 30, 2016. During periods of lower oil or natural gas prices, our customers typically decrease their capital expenditures, which generally results in lower activity levels. As a result of the low oil and natural gas price environment in North America, our customers have sought to significantly reduce their capital and operating expenditure requirements, and as a result, the demand and pricing for the equipment we manufacture in North America have been adversely impacted. Third party booking activity levels for our manufactured products in North America during the three months ended September 30, 2016 were \$85.6 million, which represents a decline of approximately 48% and 5% compared to the three months ended December 31, 2015 and September 30, 2015, respectively, and our North America product sales backlog as of September 30, 2016 was \$94.0 million, which represents a decline of approximately 58% compared to each of the three month periods ended December 31, 2015 and September 30, 2015. We believe these booking levels reflect both our customers' reduced activity levels in response to the decline in commodity prices and caution on the part of our customers as they seek to reduce costs.

Similarly, in international markets, lower oil and natural gas prices have had a negative impact on the amount of capital investment by our customers in new projects. Our customers have sought to reduce their capital and operating expenditure requirements due to lower oil and natural gas prices. As a result, the demand and pricing for our services and products in international markets have been adversely impacted. However, we believe the impact of lower oil and natural gas prices in international markets will generally be less than we expect to experience in North America for two reasons: first, the longer-term fundamentals influencing our international customers' demand and, second, the long-term contracts we have in place with some of those international customers, including for our contract operations services. Growth in our international markets depends in part on international 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 can be less tied to near term commodity prices than our North American customers. Therefore, we believe the demand for our services and products in international markets will continue, and we expect to have opportunities to grow our international businesses over the long term. Third party booking activity levels for our manufactured products in international markets during the three months ended September 30, 2016 were \$66.4 million, which represents an increase of approximately 193% and a decline of approximately 3% compared to the three months ended December 31, 2015 and September 30, 2015, respectively, and our international market product sales backlog as of September 30, 2016 was \$154.5 million, which represents a decline of approximately 25% and 39% compared to December 31, 2015 and September 30, 2015, respectively. The fluctuations in the size of our bid proposals for new contracts tend to create variability in booking activity levels in international markets from period to period.

Aggregate third party booking activity levels for our manufactured products in North America and international markets during the three months ended September 30, 2016 were \$151.9 million, which represents a decline of approximately 19% and 4% compared to the three months ended December 31, 2015 and September 30, 2015, respectively. The aggregate product sales backlog for our manufactured products in North America and international markets as of September 30, 2016 was \$248.5 million, which represents a decline of approximately 42% and 48%

compared to December 31, 2015 and September 30, 2015, respectively.

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. If capital spending by our customers remains low, we expect bookings in our product sales business in 2016 to be lower than our bookings in 2015. If these reduced booking levels persist for a sustained period, we could experience a material adverse effect on our business, financial condition, results of operations and cash flows.

Our level of capital spending depends on our forecast for the demand for our products and services and the equipment required to provide services to our customers. We anticipate investing less capital in our contract operations business in 2016 than we did in 2015.

Table of Contents

## Operating Highlights

The following tables summarize our total available horsepower, total operating horsepower, average operating horsepower, horsepower utilization percentages and product sales backlog (in thousands, except percentages):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Total Available Horsepower (at period end)	1,192	1,209	1,192	1,209
Total Operating Horsepower (at period end)	944	961	944	961
Average Operating Horsepower	949	952	958	957
Horsepower Utilization (at period end)	79	% 79	% 79	% 79

  

	September 30, 2016	December 31, 2015	September 30, 2015
		As Restated	As Restated
Product Sales Backlog (1):			
Compressor and Accessory Backlog	\$ 86,206	\$ 141,059	\$ 110,586
Production and Processing Equipment Backlog (2)	64,680	118,914	164,407
Installation Backlog	2,213	7,445	26,419
Belleli EPC Backlog (2)	95,366	162,424	179,056
Total Product Sales Backlog	\$ 248,465	\$ 429,842	\$ 480,468

Our product sales backlog consists of unfilled orders based on signed contracts and does not include potential (1) product sales pursuant to letters of intent received from customers. As Belleli CPE is no longer a part of our continuing operations, Belleli CPE's product sales backlog has been excluded from all periods presented.

Our Belleli EPC product sales backlog was previously included in our production and processing equipment (2) product sales backlog. During the first quarter of 2016, we ceased the booking of new orders for our Belleli EPC business. Changes in our Belleli EPC backlog since March 31, 2016 reflect revenue recognized and change orders booked on existing contracts.

## 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 business and our Belleli CPE business. Those results are reflected in discontinued operations for all periods presented.

Revenue. Revenue during the three months ended September 30, 2016 was \$229.2 million compared to \$411.2 million during the three months ended September 30, 2015. Revenue during the nine months ended September 30, 2016 was \$797.9 million compared to \$1,391.8 million during the nine months ended September 30, 2015. The decrease in revenue during the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 was primarily caused by revenue decreases in our oil and gas product sales segment, as discussed further below.



Table of Contents

Net income (loss). We generated net loss of \$12.7 million and net income of \$8.7 million during the three months ended September 30, 2016 and 2015, respectively, and net loss of \$201.2 million and net income of \$30.7 million during the nine months ended September 30, 2016 and 2015, respectively. The decrease in net income during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily due to a decrease in gross margin in our oil and gas product sales and contract operations segments and increases in income tax expense, restatement charges and interest expense. These activities were partially offset by foreign currency gains of \$2.5 million in the current year period compared to foreign currency losses of \$28.7 million in the prior year period, an increase in gross margin in our Belleli EPC product sales segment and decreases in selling, general and administrative (“SG&A”) expense and depreciation and amortization expense. Net loss during the three months ended September 30, 2016 included income from discontinued operations, net of tax, of \$19.7 million and net income during the three months ended September 30, 2015 included income from discontinued operations, net of tax, of \$18.3 million. The decrease in net income during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily due to a decrease in gross margin in our oil and gas product sales and contract operations segments, non-cash valuation allowances of \$101.7 million recorded against U.S. deferred tax assets during the current year period, impairment charges reflected in loss from discontinued operations, net of tax, of \$68.8 million related to Belleli CPE during the current year period and increases in interest expense and restatement charges. These activities were partially offset by foreign currency gains of \$8.0 million in the current year period compared to foreign currency losses of \$39.3 million in the prior year period, a decrease in SG&A expense and an increase in gross margin in our Belleli EPC product sales segment. Net loss during the nine months ended September 30, 2016 included loss from discontinued operations, net of tax, of \$33.4 million and net income during the nine months ended September 30, 2015 included income from discontinued operations, net of tax, of \$36.4 million.

EBITDA, as adjusted. Our EBITDA, as adjusted, was \$38.0 million and \$56.3 million during the three months ended September 30, 2016 and 2015, respectively, and \$117.0 million and \$182.8 million during the nine months ended September 30, 2016 and 2015, respectively. EBITDA, as adjusted, during the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 decreased primarily due to a decrease in gross margin in our oil and gas product sales and contract operations segments, partially offset by a decrease in SG&A expense and an increase in gross margin in our Belleli EPC product sales segment. The decrease in EBITDA, as adjusted, during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was partially offset by a \$3.9 million loss recognized during the prior year period on short-term investments related to the purchase of Argentine government issued U.S. dollar denominated bonds and a \$2.2 million gain on the sale of a plant in Argentina during the current year period. 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.”

Table of Contents

## The Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

Contract Operations  
(dollars in thousands)

	Three Months Ended September 30,		Increase (Decrease)
	2016	2015	
Revenue	\$99,143	\$114,104	(13 )%
Cost of sales (excluding depreciation and amortization expense)	36,056	41,114	(12 )%
Gross margin	\$63,087	\$72,990	(14 )%
Gross margin percentage (1)	64	% 64	% — %

(1) Defined as gross margin divided by revenue.

The decrease in revenue during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily due to a decrease in revenue of \$10.0 million resulting from an early termination of a project in the Eastern Hemisphere in January 2016 that had been operating since the third quarter of 2009, a \$6.5 million decrease in revenue in Mexico primarily driven by projects that terminated operations in 2015 and a reduction of recognized deferred revenue resulting from contract extensions and a \$3.2 million decrease in revenue in Nigeria primarily driven by two projects that terminated operations in late 2015 and early 2016. These decreases were partially offset by a \$5.3 million increase in revenue in Brazil primarily driven by the start-up of a project during the second half of 2015. Gross margin decreased during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 primarily due to the revenue decrease explained above. Gross margin percentage during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 remained flat.

Aftermarket Services  
(dollars in thousands)

	Three Months Ended September 30,		Increase (Decrease)
	2016	2015	
Revenue	\$26,590	\$25,272	5 %
Cost of sales (excluding depreciation and amortization expense)	19,046	18,336	4 %
Gross margin	\$7,544	\$6,936	9 %
Gross margin percentage	28	% 27	% 1 %

The increase in revenue during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily due to an increase in maintenance revenue earned on customer owned equipment in Bolivia. Gross margin and gross margin percentage during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 increased primarily as a result of an increase in gross margin in Latin America of \$1.1 million, partially offset by a decrease in gross margin in the Eastern Hemisphere of \$0.6 million.

Table of ContentsOil and Gas Product Sales  
(dollars in thousands)

	Three Months Ended September 30,		Increase	
	2016	2015	(Decrease)	
Revenue	\$73,685	\$253,692	(71	)%
Cost of sales (excluding depreciation and amortization expense)	70,074	214,357	(67	)%
Gross margin	\$3,611	\$39,335	(91	)%
Gross margin percentage	5	% 16	% (11	)%

Overall, the recent declines in our oil and gas product sales bookings and backlog driven by the market downturn have resulted in revenue decreases in each of the regions where we operate. During the three months ended September 30, 2016 compared to the three months ended September 30, 2015, revenue decreased by \$135.5 million, \$30.5 million and \$14.0 million in North America, the Eastern Hemisphere and Latin America, respectively. The decrease in revenue in North America was due to decreases of \$77.1 million, \$47.4 million and \$11.0 million in production and processing equipment revenue, compression equipment revenue and installation revenue, respectively. The decrease in the Eastern Hemisphere revenue was due to decreases of \$17.2 million, \$7.0 million and \$6.3 million in installation revenue, production and processing equipment revenue and compression equipment revenue, respectively. The decrease in Latin America revenue was due to decreases of \$5.9 million, \$5.5 million and \$2.6 million in production and processing equipment revenue, installation revenue and compression equipment revenue, respectively. The decreases in gross margin and gross margin percentage were primarily caused by the revenue decrease explained above and continued weakening market conditions resulting in an increasingly aggressive competitive bidding environment.

Belleli EPC Product Sales  
(dollars in thousands)

	Three Months Ended September 30,		Increase	
	2016	2015	(Decrease)	
		As Restated		
Revenue	\$29,740	\$18,105	64	%
Cost of sales (excluding depreciation and amortization expense)	29,104	26,292	11	%
Gross margin	\$636	\$(8,187)	108	%
Gross margin percentage	2	% (45	)% 47	%

The increase in revenue during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily driven by schedule delays on significant projects during the prior year period that resulted in increases to cost-to-complete estimates on each related projects, which adversely impacted revenue recognized under the percentage-of-completion accounting principles in the prior year period. The increases in gross margin and gross margin percentage were primarily caused by estimated loss contract provisions of \$8.4 million recorded on significant projects during the prior year period driven by project execution delays. See “—Exit of our Belleli Businesses” for further discussion regarding Belleli.





Table of ContentsCosts and Expenses  
(dollars in thousands)

	Three Months Ended September 30,		Increase		
	2016	2015	(Decrease)		
	As Restated				
Selling, general and administrative	\$37,864	\$54,202	(30	)%	
Depreciation and amortization	28,183	36,083	(22	)%	
Long-lived asset impairment	5,358	3,775	42	%	
Restatement charges	12,298	—	n/a		
Restructuring and other charges	2,239	7,150	(69	)%	
Interest expense	8,254	581	1,321	%	
Equity in income of non-consolidated affiliates	—	(5,084	)	(100	)%
Other (income) expense, net	(3,349	)	28,102	(112	)%

The decrease in SG&A expense during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily due to our cost reduction plan and included a \$5.0 million decrease in corporate expenses and a \$2.7 million decrease in compensation and benefits costs in the Eastern Hemisphere and Latin America. SG&A expense as a percentage of revenue was 17% and 13% during the three months ended September 30, 2016 and 2015, respectively. The increase in SG&A expense as a percentage of revenue was primarily due to a significant decrease in oil and gas product sales revenue during the three months ended September 30, 2016 compared to the three months ended September 30, 2015. For the periods prior to the Spin-off, SG&A expense includes expense allocations for certain functions, including allocations of expenses related to executive oversight, accounting, treasury, tax, legal, human resources, procurement and information technology services performed by Archrock on a centralized basis that historically have not been recorded at the segment level. These costs were allocated to us systematically based on specific department function and revenue. Included in SG&A expense during the three months ended September 30, 2015 was \$14.3 million of allocated corporate expenses incurred by Archrock. The actual costs we would have incurred if we had been a stand-alone public company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

The decrease in depreciation and amortization expense during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily due to a decrease of \$3.9 million in depreciation expense on certain contract operations projects in Latin America primarily related to capitalized installation costs that were fully depreciated. Capitalized installation costs, included, among other things, civil engineering, piping, electrical instrumentation and project management costs. Additionally, depreciation expense decreased by \$2.5 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 as a result of a contract operations project in the Eastern Hemisphere that early terminated operations in January 2016.

We regularly review the future deployment of our idle compression assets used in our contract operations segment for units that are not of the type, configuration, condition, make or model that are cost efficient to maintain and operate. During the three months ended September 30, 2016, we determined that 25 idle compressor units totaling approximately 31,000 horsepower would be retired from the active fleet. The retirement of these units from the active fleet triggered a review of these assets for impairment. As a result, we recorded a \$5.4 million asset impairment to reduce the book value of each unit to its estimated fair value during the three months ended September 30, 2016. The

fair value of each unit was estimated based on either the expected net sale proceeds compared to other fleet units we recently sold and/or a review of other units recently offered for sale by third parties. During the three months ended September 30, 2015, we determined that 19 idle compressor units totaling approximately 20,000 horsepower would be retired from the active fleet. As a result, we recorded a \$3.8 million asset impairment to reduce the book value of each unit to its estimated fair value. The fair value of each unit was estimated based on the estimated component value of the equipment on each compressor unit that we plan to use.

Table of Contents

As discussed in Note 2 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. As a result, the Audit Committee of the Company's Board of Directors initiated an internal investigation, including the use of services of a forensic accounting firm. Management also engaged a consulting firm to assist in accounting analysis and compilation of restatement adjustments. During the three months ended September 30, 2016, we incurred in \$12.3 million of costs associated with the restatement of our financial statements, which were primarily related to \$10.0 million of external accounting costs and \$1.7 million of external legal costs. We currently estimate that we will incur additional cash expenditures, including estimated external legal counsel costs related to the pending SEC investigation, of approximately \$11 million associated with the restatement of our financial statements in subsequent periods.

In the second quarter of 2015, we announced a cost reduction plan, primarily focused on workforce reductions and the reorganization of certain facilities. These actions were in response to unfavorable market conditions in North America combined with the impact of lower international activity due to customer budget cuts driven by lower oil prices. As a result of this plan, during the three months ended September 30, 2016 and 2015, we incurred \$1.5 million and \$5.2 million, respectively, of restructuring and other charges primarily related to employee termination benefits and consulting fees. Additionally, we incurred restructuring and other charges associated with the Spin-off. During the three months ended September 30, 2016, we incurred \$0.7 million of costs related to retention awards to certain employees. During the three months ended September 30, 2015, we incurred \$2.0 million related to a one-time cash signing bonus paid to our Chief Executive Officer. The charges incurred in conjunction with the cost reduction plan and Spin-off are included in restructuring and other charges in our statements of operations. See Note 12 to the Financial Statements for further discussion of these charges.

The increase in interest expense during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily due to borrowings under our revolving credit facility and term loan facility (collectively, the "Credit Facility") that became available on November 3, 2015. During the three months ended September 30, 2016, the average daily outstanding borrowings under the Credit Facility were \$386.9 million. Prior to the Spin-off, third party debt of Archrock, other than debt attributable to capital leases, was not allocated to us as we were not the legal obligor of the debt and Archrock's borrowings were not directly attributable to our business.

In March 2012, our Venezuelan joint ventures sold their assets to PDVSA Gas S.A. ("PDVSA Gas"). We received an installment payment, including an annual charge, of \$5.1 million during the three months ended September 30, 2015. As of September 30, 2016, the remaining principal amount due to us was approximately \$4 million. Payments we receive from the sale will be recognized as equity in income of non-consolidated affiliates in our statements of operations in the periods such payments are received.

The change in other (income) expense, net, during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily due to foreign currency gains, net of foreign currency derivatives, of \$2.4 million during the three months ended September 30, 2016 compared to foreign currency losses of \$28.7 million during the three months ended September 30, 2015. Our foreign currency gains and losses included translation gains, net of foreign currency derivatives, of \$2.3 million during the three months ended September 30, 2016 compared to translation losses of \$27.6 million during the three months ended September 30, 2015 related to the currency remeasurement of our foreign subsidiaries' non-functional currency denominated intercompany obligations. Of the foreign currency losses recognized during the three months ended September 30, 2015, \$26.7 million was attributable to our Brazil subsidiary's U.S. dollar denominated intercompany obligations and were the result of a currency devaluation in Brazil and increases in our Brazil subsidiary's intercompany payables during the prior year period.



Table of Contents

## Income Taxes

(dollars in thousands)

	Three Months Ended September 30,		Increase
	2016	2015	(Decrease)
	As Restated		
Provision for (benefit from) income taxes	\$16,343	\$(4,137)	(495 )%
Effective tax rate	(102.3 )%	30.1 %	(132.4 )%

The increase in our income tax expense (and reduction in our effective tax rate) during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily attributable to a \$20.7 million tax benefit recognized for research and development credits during the three months ended September 30, 2015 and a \$13.6 million charge for valuation allowances recorded against our U.S. deferred tax assets during the three months ended September 30, 2016. The valuation allowances recorded against our U.S. deferred tax assets related to carryforwards for U.S. federal net operating losses, foreign tax credits, research and development credits and alternative minimum tax credits. See Note 13 to the Financial Statements for further discussion of the valuation allowances recorded against our U.S. deferred tax assets in the current year period.

## Discontinued Operations

(dollars in thousands)

	Three Months Ended September 30,		Increase
	2016	2015	(Decrease)
Income from discontinued operations, net of tax	\$19,652	\$18,275	8 %

Income from discontinued operations, net of tax, during the three months ended September 30, 2016 and 2015 includes our Venezuelan subsidiary's operations that were expropriated in June 2009, including compensation for expropriation and costs associated with our arbitration proceeding, and our Belleli CPE business.

As discussed in Note 3 to the Financial Statements, in August 2012, our Venezuelan subsidiary sold its previously nationalized assets to PDVSA Gas. We received an installment payment, including an annual charge, of \$19.5 million and \$18.9 million during the three months ended September 30, 2016 and 2015. As of September 30, 2016, the remaining principal amount due to us was approximately \$33 million. We have not recognized amounts payable to us by PDVSA Gas as a receivable and will therefore recognize quarterly 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.

As discussed in Note 3 to the Financial Statements, we completed the sale of Belleli CPE in August 2016.

Table of Contents

## The Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

Contract Operations  
(dollars in thousands)

	Nine Months Ended September 30,		Increase (Decrease)
	2016	2015	
Revenue	\$298,591	\$350,045	(15 )%
Cost of sales (excluding depreciation and amortization expense)	110,955	130,198	(15 )%
Gross margin	\$187,636	\$219,847	(15 )%
Gross margin percentage (1)	63	% 63	% — %

(1) Defined as gross margin divided by revenue.

The decrease in revenue during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily due to a \$25.8 million decrease in revenue in Mexico primarily driven by projects that terminated operations in 2015 and a reduction of recognized deferred revenue resulting from contract extensions, a decrease in revenue of \$24.3 million resulting from an early termination of a project in the Eastern Hemisphere in January 2016 that had been operating since the third quarter of 2009, a \$14.5 million decrease in revenue in Argentina primarily due to a devaluation of the Argentine peso since the prior year period and an \$8.0 million decrease in revenue in Nigeria primarily driven by two projects that terminated operations in late 2015 and early 2016. These decreases were partially offset by a \$15.9 million increase in revenue in Brazil primarily driven by the start-up of a project during the second half of 2015 and an \$8.4 million increase in revenue in Bolivia primarily driven by the start-up of a project during the first quarter of 2016. Gross margin decreased during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to the revenue decrease explained above, excluding the devaluation of the Argentine peso as the impact on gross margin was insignificant. Gross margin percentage during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 remained flat. The early termination of a project in the Eastern Hemisphere resulted in additional costs during the nine months ended September 30, 2016 in the form of depreciation expense, which is excluded from gross margin. Additionally, excluded from cost of sales and recorded to restructuring and other charges in our statements of operations during the nine months ended September 30, 2015 were non-cash inventory write-downs of \$4.2 million associated with the Spin-off primarily related to the decentralization of shared inventory components between Archrock's North America contract operations business and our international contract operations business.

Aftermarket Services  
(dollars in thousands)

	Nine Months Ended September 30,		Increase (Decrease)
	2016	2015	
Revenue	\$91,499	\$95,547	(4 )%
Cost of sales (excluding depreciation and amortization expense)	65,483	67,820	(3 )%
Gross margin	\$26,016	\$27,727	(6 )%
Gross margin percentage	28	% 29	% (1 )%

The decrease in revenue during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily due to a decrease in revenue of \$7.1 million in Gabon driven by our cessation of

activities in those markets in the first quarter of 2015, partially offset by an increase in part sales in China. Gross margin decreased during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily due to the revenue decreased discussed above. Gross margin percentage during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 decreased primarily due to the receipt of a settlement from a customer in Gabon during the nine months ended September 30, 2015, which positively impacted revenue and gross margin by \$3.7 million and \$2.2 million, respectively.

Table of Contents

## Oil and Gas Product Sales

(dollars in thousands)

	Nine Months Ended September 30,		Increase	
	2016	2015	(Decrease)	
Revenue	\$314,684	\$875,439	(64	)%
Cost of sales (excluding depreciation and amortization expense)	290,165	736,302	(61	)%
Gross margin	\$24,519	\$139,137	(82	)%
Gross margin percentage	8	% 16	% (8	)%

Overall, the recent declines in our oil and gas product sales bookings and backlog driven by the market downturn have resulted in revenue decreases in each of the regions where we operate. During the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, revenue decreased by \$414.8 million, \$96.2 million and \$49.8 million in North America, the Eastern Hemisphere and Latin America, respectively. The decrease in revenue in North America was due to decreases of \$211.2 million, \$160.7 million and \$42.9 million in production and processing equipment revenue, compression equipment revenue and installation revenue, respectively. The decrease in the Eastern Hemisphere revenue was due to decreases of \$37.9 million, \$37.0 million and \$21.3 million in installation revenue, production and processing equipment revenue and compression equipment revenue, respectively. The decrease in Latin America revenue was due to decreases of \$33.1 million, \$8.5 million and \$8.2 million in compression equipment revenue, installation revenue and production and processing equipment revenue, respectively. The decreases in gross margin and gross margin percentage were primarily caused by the revenue decrease explained above and continued weakening market conditions resulting in an increasingly aggressive competitive bidding environment. Excluded from cost of sales and recorded to restructuring and other charges in our statements of operations during the nine months ended September 30, 2015 were non-cash inventory write-downs of \$4.5 million primarily related to our decision to exit the manufacturing of cold weather packages, which had historically been performed at an oil and gas product sales facility in North America we decided to close.

## Belleli EPC Product Sales

(dollars in thousands)

	Nine Months Ended September 30,		Increase	
	2016	2015 As Restated	(Decrease)	
Revenue	\$93,161	\$70,743	32	%
Cost of sales (excluding depreciation and amortization expense)	93,953	103,483	(9	)%
Gross margin	\$(792 )	\$(32,740)	98	%
Gross margin percentage	(1 )%	(46 )%	45	%

The increase in revenue during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily driven by schedule delays on significant projects during the prior year period that resulted in increases to cost-to-complete estimates on each related projects, which adversely impacted revenue recognized under the percentage-of-completion accounting principles in the prior year period. The increases in gross margin and gross margin percentage were primarily caused by estimated loss contract provisions of \$33.0 million recorded on significant projects during the prior year period driven by project execution delays. See “—Exit of our Belleli Businesses” for further discussion regarding Belleli.





Table of ContentsCosts and Expenses  
(dollars in thousands)

	Nine Months Ended September 30,		Increase	
	2016	2015	(Decrease)	
		As Restated		
Selling, general and administrative	\$ 124,250	\$ 167,452	(26	)%
Depreciation and amortization	106,533	110,151	(3	)%
Long-lived asset impairment	6,009	14,264	(58	)%
Restatement charges	20,149	—	n/a	
Restructuring and other charges	25,442	17,697	44	%
Interest expense	25,596	1,407	1,719	%
Equity in income of non-consolidated affiliates	(10,403 )	(15,152 )	(31	)%
Other (income) expense, net	(13,160 )	39,280	(134	)%

The decrease in SG&A expense during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily due to our cost reduction plan and included a \$13.3 million decrease in compensation and benefits costs in the Eastern Hemisphere and Latin America and a \$9.7 million decrease in corporate expenses. SG&A expense as a percentage of revenue was 16% and 12% during the nine months ended September 30, 2016 and 2015, respectively. The increase in SG&A expense as a percentage of revenue was primarily due to a significant decrease in oil and gas product sales revenue during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. For the periods prior to the Spin-off, SG&A expense includes expense allocations for certain functions, including allocations of expenses related to executive oversight, accounting, treasury, tax, legal, human resources, procurement and information technology services performed by Archrock on a centralized basis that historically have not been recorded at the segment level. These costs were allocated to us systematically based on specific department function and revenue. Included in SG&A expense during the nine months ended September 30, 2015 was \$42.4 million of allocated corporate expenses incurred by Archrock. The actual costs we would have incurred if we had been a stand-alone public company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

Depreciation and amortization expense during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 decreased primarily due to a decrease of \$13.9 million in depreciation expense on certain contract operations projects in Latin America primarily related to capitalized installation costs that were fully depreciated. Capitalized installation costs, included, among other things, civil engineering, piping, electrical instrumentation and project management costs. Additionally, depreciation expense decreased by \$3.9 million and \$3.4 million in Belleli EPC and Bahrain, respectively, primarily as a result of certain capitalized cost being fully depreciated in the current year period. These decreases in depreciation expense were partially offset by an increase in depreciation expense of \$17.5 million on a contract operations project in the Eastern Hemisphere that early terminated operations in January 2016. The depreciation expense recognized in the current year period primarily related to capitalized installation costs. The project had been operating since the third quarter of 2009.

We regularly review the future deployment of our idle compression assets used in our contract operations segment for units that are not of the type, configuration, condition, make or model that are cost efficient to maintain and operate. During the nine months ended September 30, 2016, we determined that 25 idle compressor units totaling approximately 31,000 horsepower would be retired from the active fleet. The retirement of these units from the active

fleet triggered a review of these assets for impairment. As a result, we recorded a \$5.4 million asset impairment to reduce the book value of each unit to its estimated fair value during the nine months ended September 30, 2016. The fair value of each unit was estimated based on either the expected net sale proceeds compared to other fleet units we recently sold and/or a review of other units recently offered for sale by third parties. During the nine months ended September 30, 2015, we determined that 48 idle compressor units totaling approximately 44,000 horsepower would be retired from the active fleet. As a result, we recorded a \$12.9 million asset impairment to reduce the book value of each unit to its estimated fair value. The fair value of each unit was estimated based on the estimated component value of the equipment on each compressor unit that we plan to use.

## Table of Contents

As discussed in Note 3 to the Financial Statements, in the first quarter of 2016, we committed to a plan to exit our Belleli EPC business to focus on our core oil and gas businesses. Because we ceased the booking of new orders for the manufacture of tanks for tank farms and the manufacture of evaporators and brine heaters for desalination plants, customer relationship intangible assets related to our Belleli EPC business were assessed to have no future benefit to us. As a result, we recorded a long-lived asset impairment charge of \$0.7 million during the nine months ended September 30, 2016.

During the first quarter of 2015, we evaluated a long-term note receivable from the purchaser of our Canadian contract operations and aftermarket services businesses (“Canadian Operations”) for impairment. This review was triggered by an offer from the purchaser of our Canadian Operations to prepay the note receivable at a discount to its then current book value. The fair value of the note receivable as of March 31, 2015 was based on the amount offered by the purchaser of our Canadian Operations to prepay the note receivable. The difference between the book value of the note receivable at March 31, 2015 and its fair value resulted in the recording of an impairment of long-lived assets of \$1.4 million during the nine months ended September 30, 2015. In April 2015, we accepted the offer to early settle this note receivable.

As discussed in Note 2 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. As a result, the Audit Committee of the Company’s Board of Directors initiated an internal investigation, including the use of services of a forensic accounting firm. Management also engaged a consulting firm to assist in accounting analysis and compilation of restatement adjustments. During the nine months ended September 30, 2016, we incurred in \$20.1 million of costs associated with the restatement of our financial statements, which were primarily related to \$14.8 million of external accounting costs and \$4.4 million of external legal costs. We currently estimate that we will incur additional cash expenditures, including estimated external legal counsel costs related to the pending SEC investigation, of approximately \$11 million associated with the restatement of our financial statements in subsequent periods.

In the second quarter of 2015, we announced a cost reduction plan, primarily focused on workforce reductions and the reorganization of certain facilities. These actions were in response to unfavorable market conditions in North America combined with the impact of lower international activity due to customer budget cuts driven by lower oil prices. During the nine months ended September 30, 2016, we incurred \$21.9 million of restructuring and other charges as a result of this plan, which were primarily related to \$18.8 million of employee termination benefits and a \$2.7 million charge for the exit of a corporate building under an operating lease. During the nine months ended September 30, 2015, we incurred \$11.0 million of restructuring and other charges as a result of this plan, which were primarily related to \$4.0 million of non-cash write-downs of inventory and \$5.7 million of employee termination benefits. The non-cash inventory write-downs were the result of our decision to exit the manufacturing of cold weather packages, which had historically been performed at an oil and gas product sales facility in North America we decided to close in 2015. Additionally, we incurred restructuring and other charges associated with the Spin-off. During the nine months ended September 30, 2016, we incurred \$3.5 million of costs associated with the Spin-off, of which \$2.6 million related to retention awards to certain employees and \$0.9 million related to the start-up of certain stand-alone functions. During the nine months ended September 30, 2015, we incurred \$6.7 million of costs associated with the Spin-off, of which \$2.0 million related to the a one-time cash signing bonus paid to our Chief Executive Officer and \$4.7 million related to non-cash inventory write-downs associated with the Spin-off. Non-cash inventory write-downs primarily related to the decentralization of shared inventory components between Archrock’s North America contract operations business and our international contract operations business. The charges incurred in conjunction with the cost reduction plan and Spin-off are included in restructuring and other charges in our statements of operations. See Note 12 to the Financial Statements for further discussion of these charges.

The increase in interest expense during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily due to borrowings under our revolving credit facility and term loan facility (collectively, the “Credit Facility”) that became available on November 3, 2015. During the nine months ended September 30, 2016, the average daily outstanding borrowings under the Credit Facility were \$441.8 million. Prior to the Spin-off, third party debt of Archrock, other than debt attributable to capital leases, was not allocated to us as we were not the legal obligor of the debt and Archrock’s borrowings were not directly attributable to our business.

In March 2012, our Venezuelan joint ventures sold their assets to PDVSA Gas. We received installment payments, including an annual charge, of \$10.4 million and \$15.2 million during the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, the remaining principal amount due to us was approximately \$4 million. Payments we receive from the sale will be recognized as equity in income of non-consolidated affiliates in our statements of operations in the periods such payments are received.

Table of Contents

The change in other (income) expense, net, during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily due to foreign currency gains, net of foreign currency derivatives, of \$7.4 million during the nine months ended September 30, 2016 compared to foreign currency losses of \$39.3 million during the nine months ended September 30, 2015. Our foreign currency gains and losses included translation gains, net of foreign currency derivatives, of \$9.3 million during the nine months ended September 30, 2016 compared to translation losses of \$35.6 million during the nine months ended September 30, 2015 related to the currency remeasurement of our foreign subsidiaries' non-functional currency denominated intercompany obligations. Of the foreign currency losses recognized during the nine months ended September 30, 2015, \$35.3 million was attributable to our Brazil subsidiary's U.S. dollar denominated intercompany obligations and were the result of a currency devaluation in Brazil and increases in our Brazil subsidiary's intercompany payables during the prior year period. The change in other (income) expense, net, was also due to a \$3.9 million loss recognized during the prior year period on short-term investments related to the purchase of \$15.3 million of Argentine government issued U.S. dollar denominated bonds using Argentine pesos and a \$2.2 million gain on the sale of a plant in Argentina during the current year period.

## Income Taxes

(dollars in thousands)

	Nine Months Ended September 30,		Increase	
	2016	2015	(Decrease)	
	As Restated			
Provision for income taxes	\$ 120,687	\$ 24,555	391	%
Effective tax rate	(256.6 )%	130.1 %	(386.7 )%	

The increase in our income tax expense (and increase in our effective tax rate) during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily attributable to a \$101.7 million charge for valuation allowances recorded against our U.S. deferred tax assets during the current year period, a \$12.7 million charge incurred by one of our subsidiaries in Nigeria for settlement of a foreign tax audit (\$7.4 million) and valuation allowances recorded against its remaining deferred tax assets (\$5.3 million) during the current year period and a \$20.7 million tax benefit recognized for research and development credits during the prior year period. These increases were partially offset by a \$65.9 million decrease in income before income taxes and valuation allowances on net operating losses in our Brazil, Italy and Netherlands subsidiaries in the prior year period. The valuation allowances recorded against our U.S. deferred tax assets related to carryforwards for U.S. federal net operating losses, foreign tax credits, research and development credits and alternative minimum tax credits. See Note 13 to the Financial Statements for further discussion of the valuation allowances recorded against our U.S. deferred tax assets in the current year period.

## Discontinued Operations

(dollars in thousands)

	Nine Months Ended September 30,		Increase	
	2016	2015	(Decrease)	
Income (loss) from discontinued operations, net of tax	\$(33,439)	\$36,414	(192 )%	

Income (loss) from discontinued operations, net of tax, during the nine months ended September 30, 2016 and 2015 includes our Venezuelan subsidiary's operations that were expropriated in June 2009, including compensation for expropriation and costs associated with our arbitration proceeding, and our Belleli CPE business.

As discussed in Note 3 to the Financial Statements, in August 2012, our Venezuelan subsidiary sold its previously nationalized assets to PDVSA Gas. We received installment payments, including an annual charge, of \$38.8 million and \$37.6 million during the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, the remaining principal amount due to us was approximately \$33 million. We have not recognized amounts payable to us by PDVSA Gas as a receivable and will therefore recognize quarterly 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.

Table of Contents

As discussed in Note 3 to the Financial Statements, in the first quarter of 2016, we committed to a plan to exit our Belleli CPE business, which provided engineering, procurement and manufacturing services related to the manufacture of critical process equipment for refinery and petrochemical facilities. As discussed in Note 3 to the Financial Statements, we completed the sale of Belleli CPE in August 2016. Our Belleli CPE business was previously included in our former product sales segment. In conjunction with the planned disposition, we recorded impairments of long-lived assets and current assets that totaled \$68.8 million during the nine months ended September 30, 2016. The impairment charges are reflected in income (loss) from discontinued operations, net of tax.

## Liquidity and Capital Resources

Our unrestricted cash balance was \$32.1 million at September 30, 2016, compared to \$29.0 million at December 31, 2015. Working capital decreased to \$222.1 million at September 30, 2016 from \$408.5 million at December 31, 2015. The decrease in working capital was primarily due to decreases in accounts receivable, inventory, current assets associated with discontinued operations and costs and estimated earnings in excess of billings on uncompleted contracts, partially offset by decreases in accounts payable and current liabilities associated with discontinued operations. The decrease in accounts receivable was primarily driven by lower oil and gas product sales activity in North America and the timing of payments received from customers during the current year period. The decreases in current assets and liabilities associated with discontinued operations were primarily due to the sale of Belleli CPE in August 2016. The decrease in inventory was primarily driven by a decrease in raw materials largely resulting from lower oil and gas product sales activity in North America. The decrease in costs and estimated earnings in excess of billings on uncompleted contracts was primarily driven by lower oil and gas product sales activity in North America. The decrease in accounts payable was primarily due to a decrease in purchasing activities in North America and Latin America during the current year period.

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):

	Nine Months Ended	
	September 30,	
	2016	2015
		As
		Restated
Net cash provided by (used in) continuing operations:		
Operating activities	\$213,020	\$92,961
Investing activities	(36,302 )	(96,314 )
Financing activities	(205,879 )	(41,309 )
Effect of exchange rate changes on cash and cash equivalents	(2,268 )	(976 )
Discontinued operations	34,450	38,223
Net change in cash and cash equivalents	\$3,021	\$(7,415 )

Operating Activities. The increase in net cash provided by operating activities during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily attributable to working capital decreases in the current year period compared to working capital increases in the prior year period and lower SG&A expense during the current year period, partially offset by a decrease in gross margin in our oil and gas product sales segment and cash outflows relating to restructuring and other charges and restatement charges during the current year period. Working capital changes during the nine months ended September 30, 2016 included a decrease of \$127.8 million in accounts receivable, a decrease of \$16.6 million in costs and estimated earnings versus billings on



uncompleted contracts, a decrease of \$44.9 million in inventory, a decrease of \$25.7 million in accounts payable and other liabilities and an increase of \$25.1 million in deferred revenue. Working capital changes during the nine months ended September 30, 2015 included a decrease of \$41.1 million in accounts receivable, a decrease of \$69.7 million in accounts payable and other liabilities, an increase of \$22.5 million in costs and estimated earnings versus billings on uncompleted contracts and a decrease of \$29.0 million in inventory.

## Table of Contents

**Investing Activities.** The decrease in net cash used in investing activities during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily attributable to a \$74.4 million decrease in capital expenditures, partially offset by \$5.4 million of net proceeds received from the settlement of our outstanding note receivable for the sale of our Canadian Operations in the prior year period, a \$4.8 million decrease in cash payments received from the sale of our Venezuelan joint ventures' previously nationalized assets and a \$4.3 million decrease in proceeds from the sale of property, plant and equipment. The decrease in capital expenditures was primarily driven by installation costs incurred during the nine months ended September 30, 2015 on contract operations projects in Brazil and Bolivia that began operations during the second half of 2015 and first quarter of 2016, respectively, and a decrease in maintenance capital expenditures.

**Financing Activities.** The increase in net cash used in financing activities during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily attributable to net repayments of \$155.2 million on our revolving credit facility during the current year period, a transfer of cash during the current year period of \$49.2 million to Archrock pursuant to the separation and distribution agreement, partially offset by net distributions to parent of \$40.8 million during the prior year period. The transfer of cash to Archrock during the nine months ended September 30, 2016 was triggered by our receipt of payments from PDVSA Gas in respect of the sale of our and our joint ventures' previously nationalized assets.

**Discontinued Operations.** The decrease in net cash provided by discontinued operations during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily attributable to working capital changes related to our Belleli CPE business, partially offset by cash proceeds of \$5.5 million received from the sale of our Belleli CPE business in August 2016.

**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 the acquisition cost of new compressor units and processing and treating equipment that we add to our fleet and installation costs on integrated projects. 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 \$75 million to \$85 million in capital expenditures during 2016, including (1) approximately \$50 million to \$60 million on contract operations growth capital expenditures and (2) approximately \$10 million to \$15 million on equipment maintenance capital related to our contract operations business.

## Table of Contents

On July 10, 2015, we and our wholly owned subsidiary, EESLP, entered into a \$750.0 million credit agreement (the “Credit Agreement”) with Wells Fargo, as the administrative agent, and various financial institutions as lenders. On October 5, 2015, the parties amended and restated the Credit Agreement to provide for a \$925.0 million credit facility, consisting of a \$680.0 million revolving credit facility and a \$245.0 million term loan facility (collectively, the “Credit Facility”). Availability under the Credit Facility was subject to the satisfaction of certain conditions precedent, including the consummation of the Spin-off on or before January 4, 2016 (the date on which those conditions were satisfied, November 3, 2015, is referred to as the “Initial Availability Date”). The revolving credit facility will mature in November 2020 and the term loan facility will mature in November 2017. In accordance with the Credit Agreement, we are required to repay borrowings outstanding under the term loan facility on each anniversary of the Initial Availability Date in an amount equal to the lesser of (i) \$12.3 million and (ii) the outstanding principal balance of the term loan facility. The principal amount of \$12.3 million due in November 2016 under the term loan facility is classified as long-term in our balance sheet at September 30, 2016 because we have the intent and ability to refinance the current principal amount due with borrowings under our existing revolving credit facility.

As a result of the events described in Note 2 to the Financial Statements related to Belleli EPC (including, without limitation, the need to restate previously issued financial statements), on April 22, 2016, June 17, 2016, August 24, 2016 and November 22, 2016, we and our wholly owned subsidiary, EESLP, entered into amendments to the Credit Agreement (as amended, the “Amended Credit Agreement”) with Wells Fargo, as the administrative agent, and various financial institutions as lenders.

Under the Amended Credit Agreement, the lenders waived, among other things, (1) any potential event of default arising under the Credit Agreement as a result of the potential inaccuracy of certain representations and warranties regarding our prior period financial information and previously delivered compliance certificate for the 2015 fiscal year and (2) any requirement that EESLP or we make any representations and warranties as to our prior period financial statements and other prior period financial information. The Amended Credit Agreement extended the deadline to no later than February 28, 2017 by which we are required to deliver to the lenders our quarterly reports for the fiscal quarters ended March 31, 2016, June 30, 2016 and September 30, 2016 and the related compliance certificates demonstrating compliance with the financial covenants set forth in the Credit Agreement.

The Amended Credit Agreement also, among other things:

provides that LIBOR loans will bear interest at LIBOR plus 2.75% and base rate loans will bear interest at the Base Rate plus 1.75% until February 28, 2017 (or, if earlier, the date we deliver replacement financial information for our 2015 audited financial statements, together with a replacement compliance certificate);

adds a condition precedent to the borrowing of loans that, after giving effect to the application of the proceeds of each borrowing, our consolidated cash balance (as defined in the Amended Credit Agreement) will not exceed \$30,000,000 plus certain other amounts; and

amends the definition of EBITDA to allow adjustments for certain Restructuring Costs and Restatement Costs (in each case as defined in the Amended Credit Agreement) to the extent such costs were incurred during the years ending December 31, 2016 and 2017.

As of September 30, 2016, we had \$130.0 million in outstanding borrowings and \$68.8 million in outstanding letters of credit under our revolving credit facility. At September 30, 2016, taking into account guarantees through letters of credit, we had undrawn capacity of \$481.2 million under our revolving credit facility. Our Credit Agreement limits our Total Debt (as defined in the Credit Agreement) to EBITDA ratio (as defined in the Credit Agreement) to not greater than 3.75 to 1.0 (which will increase to 4.50 to 1.0 following the completion of a qualified capital raise). As a

result of this limitation, \$315.9 million million of the \$481.2 million of undrawn capacity under our revolving credit facility was available for additional borrowings as of September 30, 2016.

Table of Contents

Revolving borrowings under the Credit Facility bear interest at a rate equal to, at our option, either the Base Rate or LIBOR (or EURIBOR, in the case of Euro-denominated borrowings) plus the applicable margin. The applicable margin for revolving borrowings varies (i) in the case of LIBOR loans, from 1.50% to 2.75% and (ii) in the case of Base Rate loans, from 0.50% to 1.75%, and will be determined based on our total leverage ratio pricing grid. “Base Rate” means the highest of the prime rate, the federal funds effective rate plus 0.50% and one-month LIBOR plus 1.00%. Until the term loan facility is refinanced in full with the proceeds of a qualified capital raise (as defined in the Credit Agreement), the applicable margin for borrowings under the revolving credit facility will be increased by 1.00% until the first anniversary of the Initial Availability Date and by 1.50% following the first anniversary of the Initial Availability Date. Term loan borrowings under the Credit Facility will bear interest at a rate equal to, at our option, either (1) the Base Rate plus 4.75%, or (2) the greater of LIBOR or 1.00%, plus 5.75%. The weighted average annual interest rate on outstanding borrowings under the revolving credit facility at September 30, 2016 was 4.3%. The annual interest rate on the outstanding balance of the term loan facility at September 30, 2016 was 6.8%. During the nine months ended September 30, 2016, the average daily borrowings under the Credit Facility were \$441.8 million.

We and all of our Significant Domestic Subsidiaries (as defined in the Credit Agreement) guarantee EESLP’s obligations under the Credit Facility. In addition, EESLP’s obligations under the Credit Facility are secured by (1) substantially all of our assets and the assets of EESLP and our Significant Domestic Subsidiaries located in the U.S., including certain real property, and (2) all of the equity interests of our U.S. restricted subsidiaries (other than certain excluded subsidiaries) (as defined in the Credit Agreement) and 65% of the voting equity interests in certain of our first-tier foreign subsidiaries.

We are required to prepay borrowings outstanding under the term loan facility with the net proceeds of certain asset sales, equity issuances, debt incurrences and other events (subject to, in certain circumstances, our right to reinvest the proceeds within a specified period). In addition, if the total leverage ratio as of the last day in any fiscal year is greater than 2.50 to 1.00, we are required to prepay borrowings outstanding under the term loan facility with a portion of Excess Cash Flow (as defined in the Credit Agreement) for that fiscal year equal to (a) 50% of Excess Cash Flow if the total leverage ratio is greater than 3.00 to 1.00 or (b) 25% of Excess Cash Flow if the total leverage ratio is greater than 2.50 to 1.00 but less than or equal to 3.00 to 1.00.

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 of 2.25 to 1.00; a maximum total leverage ratio of 3.75 to 1.00 prior to the completion of a qualified capital raise (as defined in the Credit Agreement) and 4.50 to 1.00 thereafter; and, following the completion of a qualified capital raise, a maximum senior secured leverage ratio of 2.75 to 1.00. As of September 30, 2016, we maintained a 6.5 to 1.0 interest coverage ratio, a 2.0 to 1.0 total leverage ratio and a 2.0 to 1.0 senior secured leverage ratio. As of September 30, 2016, we were in compliance with all financial covenants under the Credit Agreement.

We may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such 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 primarily with net cash provided by operating activities. Our ability to access the capital markets may be restricted at a 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 our Credit Facility, 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 scheduled interest and debt repayments through December 31, 2016; however, to the extent they are not, we may seek additional debt or equity financing. Additionally, our term loan facility matures in November 2017. At or prior to the time the term loan matures, we will be required to refinance it and may enter into one or more new facilities, which could result in higher borrowing costs, issue equity, which would dilute our existing shareholders, or otherwise raise the funds necessary to repay the outstanding principal amount under the term loan.

## Table of Contents

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 \$49.2 million to Archrock during the nine months ended September 30, 2016. The transfer of cash was recognized as a reduction to additional paid-in capital in our financial statements. As of September 30, 2016, the remaining principal amount due to us from PDVSA Gas in respect of the sale of our and our joint ventures' previously nationalized assets was approximately \$37 million.

Pursuant to the separation and distribution agreement, EESLP (in the case of debt offerings) or Exterran Corporation (in the case of equity issuances) will use its commercially reasonable efforts to complete one or more unsecured debt offerings or equity issuances resulting in aggregate gross cash proceeds of at least \$250.0 million on the terms described in the Credit Agreement (such transaction, a "qualified capital raise") on or before the maturity date of our \$245.0 million term loan facility. In connection with the Spin-off, EESLP contributed to a subsidiary of Archrock the right to receive, promptly following the occurrence of a qualified capital raise, a \$25.0 million cash payment. Our balance sheets do not reflect this contingent liability to Archrock.

Of our \$32.1 million unrestricted cash balance at September 30, 2016, \$25.2 million was held by our non-U.S. subsidiaries. We have not provided for U.S. federal income taxes on indefinitely (or permanently) reinvested cumulative earnings generated 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 both foreign withholding taxes and U.S. federal income taxes net of allowable foreign tax credits. 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. and the available borrowing capacity under our revolving credit facility, as well as 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.

**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 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. 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.





Table of Contents

## 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 and other measures 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 (loss) to EBITDA, as adjusted (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
		As Restated		As Restated
Net income (loss)	\$(12,660)	\$8,677	\$(201,163)	\$30,731
(Income) loss from discontinued operations, net of tax	(19,652 )	(18,275 )	33,439	(36,414 )
Depreciation and amortization	28,183	36,083	106,533	110,151
Long-lived asset impairment	5,358	3,775	6,009	14,264
Restatement charges	12,298	—	20,149	—
Restructuring and other charges	2,239	7,150	25,442	17,697
Investment in non-consolidated affiliates impairment	—	33	—	33
Proceeds from sale of joint venture assets	—	(5,117 )	(10,403 )	(15,185 )
Interest expense	8,254	581	25,596	1,407
(Gain) loss on currency exchange rate remeasurement of intercompany balances	(2,335 )	27,551	(9,335 )	35,550
Provision for (benefit from) income taxes	16,343	(4,137 )	120,687	24,555
EBITDA, as adjusted	\$38,028	\$56,321	\$116,954	\$182,789

## Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

59

---

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks primarily associated with changes in foreign currency exchange rates. We have 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 recorded foreign currency gains of \$8.0 million and foreign currency losses of \$39.3 million in our statements of operations during the nine months ended September 30, 2016 and 2015, 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 a subsidiary whose functional currency is the Brazilian Real, which loans carried balances of \$40.8 million U.S. dollars as of September 30, 2016. Our foreign currency gains and losses included translation gains of \$9.9 million and translation losses of \$35.6 million during the nine months ended September 30, 2016 and 2015, respectively, related to the functional currency remeasurement of our foreign subsidiaries' non-functional currency denominated intercompany obligations. Of the foreign currency losses recognized during the nine months ended September 30, 2015, \$35.3 million was attributable to our Brazil subsidiary's U.S. dollar denominated intercompany obligations and were the result of a currency devaluation in Brazil and increases in our Brazil subsidiary's intercompany payables during the prior year period. Additionally, during the nine months ended September 30, 2016, we recognized a loss of \$0.6 million on forward currency exchange contracts that offset exchange rate exposure related to intercompany loans to a subsidiary whose functional currency is the Brazilian Real. 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.

As of September 30, 2016, we had \$375.0 million of outstanding borrowings that are subject to floating interest rates. Changes in economic conditions outside of our control could result in higher interest rates, thereby increasing our interest expense and reducing the funds available for capital investment, operations or other purposes. A 1% increase in the effective interest rate on our outstanding debt subject to floating interest rates at September 30, 2016 would result in an annual increase in our interest expense of approximately \$3.8 million.

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, 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 described below, management previously identified and reported material weaknesses in internal control over financial reporting in our December 31, 2015 Annual Report on Form 10-K/A. As a result of those material weaknesses, our principal executive officer and principal financial officer have

concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective as of September 30, 2016. Notwithstanding the existence of the material weaknesses described below, we believe that the consolidated and combined financial statements in this Quarterly Report fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with GAAP.

#### Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. We have identified the following material weaknesses:

## Table of Contents

### Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring

We did not maintain effective internal control over financial reporting related to the following areas: control environment, risk assessment, control activities, information and communication and monitoring. In particular, controls related to the following were not designed or operating effectively:

There was not adequate integration, emphasis of local senior management accountability and management oversight of accounting and financial reporting activities in implementing and maintaining certain accounting practices at Belleli EPC to conform to the Company's policies and GAAP.

The Company did not modify its controls and testing procedures to sufficiently address its assessment of risks related to Belleli EPC that could significantly impact internal control over financial reporting by modifying its approach to how those risks should be addressed.

The Company did not implement and maintain the same accounting controls at Belleli EPC, including information and communication controls, as those maintained in the Company's other operating locations, resulting in internal controls that were not adequate to prevent or detect instances of intentional override of controls, intentional misconduct, or manipulation of cost-to-complete estimates by, or at the direction of, certain former members of Belleli EPC local senior management.

The Company did not maintain a sufficient complement of personnel with appropriate levels of accounting knowledge, experience and training commensurate with the nature and complexity of Belleli EPC's business.

Corporate monitoring controls over certain foreign operations were not adequate to detect inappropriate accounting practices and were not designed to operate at a sufficient level of precision to detect material misstatements.

The above material weaknesses contributed to material weaknesses at the control-activity level.

### Revenue Recognition of Belleli EPC Percentage-of-Completion Projects

We did not design and maintain effective procedures or controls over accurate recording, presentation and disclosure of revenue and related costs in the application of percentage-of-completion accounting principles to our engineering, procurement and construction projects by Belleli EPC. Various deficiencies were identified in the process that aggregated to a material weakness. Controls relating to the following areas were not designed or operating effectively:

Controls over the determination of estimated cost-to-complete, including the assessment of contingencies and impact of project uncertainties; and

Controls to address the accuracy and completeness of information used to estimate revenue and related costs in the application of percentage-of-completion accounting principles.

The Company also identified material weaknesses in the control environment relating to risk assessment, control activities, information and communication and monitoring controls which contributed to this material weakness.

### Existence and Recovery of Brazil Non-Income-Based Tax Receivables

The Company's controls and procedures around the existence and recovery of Brazilian non-income-based tax receivables were not designed to review the Brazilian non-income-based tax receivables on a regular basis by

personnel with appropriate expertise.

The Company also identified material weaknesses in the control environment and corporate monitoring controls, which contributed to this material weakness.

All of the material weaknesses identified by the Company resulted in misstatements to product sales, product sales cost of sales, accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, billings on uncompleted contracts in excess of costs and estimated earnings, accrued liabilities, intangibles and other assets, net, and other income.

Table of Contents

Remediation of Material Weakness in Internal Control Over Financial Reporting

Our management is committed to the planning and implementation of remediation efforts to address all material weaknesses, as well as to foster continuous improvement in the Company's internal controls. These remediation efforts, summarized below, are implemented, in the process of being implemented or are planned for implementation, and are intended to address the identified material weaknesses and enhance our overall financial control environment.

In the first quarter of 2016, our management made a decision to exit the Belleli EPC business, which includes Belleli EPC's engineering, procurement and construction for the manufacture of tanks for tank farms and the manufacture of evaporators and brine heaters for desalination plants. Accordingly, Belleli EPC will not enter into any new contracts or orders from any new or existing customers relating to the Belleli EPC business. This departure decision is considered in determining the nature and extent of our Belleli EPC remediation efforts. In addition, Belleli EPC's prior local senior management responsible for the intentional override of controls and misconduct are no longer employees of Belleli EPC or its affiliates.

During 2016, we made numerous changes throughout our organization and took significant actions to reinforce the importance of a strong control environment, including training and other steps designed to strengthen and enhance our control culture.

To remediate the deficiencies identified herein, our leadership team, including the principal executive officer and current principal financial officer, has reaffirmed and reemphasized the importance of internal control, control consciousness and a strong control environment.

To date we have implemented the following remediation efforts at Belleli EPC:

Restructured the Company's Executive Leadership Team (ELT), including designating responsibility of overseeing Belleli EPC projects to an ELT member who then reports directly to the Exterran Corporation principal executive officer;

Appointed experienced professionals to key finance and operational leadership positions within Belleli EPC, including the hiring of a new Finance Manager and assigning a Managing Director to lead the operations organization;

Integrated oversight of Belleli EPC operating, finance and manufacturing personnel by certain members of the Exterran Corporation ELT and the Exterran Corporation chief financial officer's leadership team, including implementing regular meetings, to ensure sufficient oversight of project performance;

Established a direct functional reporting structure between Belleli EPC and Exterran Corporation with more clearly defined responsibilities;

Provided enhanced training on our policies and ethical requirements in English, and in Italian where necessary, including the emphasis of our hotline, the importance of reporting unethical actions and the Company's zero tolerance for retaliation of any kind;

Engaged a third-party consultant to accelerate redesigning the Belleli EPC project and contract management processes and controls; and

•



Enhanced the accuracy and visibility of Belleli EPC financial results by improving the integrity of the monthly data interface.

Our management believes that meaningful progress has been made against remaining remediation efforts; although timetables vary, management regards successful completion as an important priority. Remaining remediation activities include:

- Instituting enhanced review of estimated costs at completion as part of the quarterly close process;

- Reviewing and redesigning internal controls, including spreadsheet controls, to ensure that the control objectives mitigate the identified risks;

- Assessing and redesigning, as necessary, systems and related processes at Belleli EPC to ensure information technology oversight matches the operations of the business;

Table of Contents

Integrating accounting, manufacturing and operations functions and revising organizational structures to enhance accurate reporting and ensure appropriate review and accountability;

- Assessing current staffing levels and competencies to ensure the optimal complement of personnel with appropriate backgrounds and skill sets;

Enhancing our Sarbanes-Oxley (SOX) compliance procedures, including designing controls to respond to our risk assessment processes, implementing walkthroughs and performing risk responsive testing on our internal controls; and

Implementing a corporate review of non-income-based tax receivables globally.

Management believes the measures, when fully implemented and operational, will remediate the control deficiencies we have identified and strengthen our internal control over financial reporting. We are committed to improving our internal control processes and intend to continue to review and improve our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

Changes in Internal Control over Financial Reporting

Prior to the Spin-off, we relied on certain financial information and resources of Archrock to manage specific aspects of our business and report results. These included investor relations, corporate communications, accounting, tax, legal, human resources, benefit plan administration, benefit plan reporting, general management, real estate, treasury, insurance and risk management, and oversight functions, such as board of directors and internal audit, which includes Sarbanes-Oxley compliance. In conjunction with the Spin-off, we revised and adopted policies, as needed, to meet all regulatory requirements applicable to us as a stand-alone public company. We continue to review and document our internal controls over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness. These efforts may lead to additional changes in our internal control over financial reporting.

Other than those noted above, 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.

Table of Contents

## 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, including responding to a subpoena for documents related to the restatement and compliance with the U.S. Foreign Corrupt Practices Act (“FCPA”), which are also being provided to the Department of Justice at its request. The FCPA related requests in the SEC subpoena pertain to our policies and procedures, information about our third-party sales agents, and documents related to historical internal investigations completed prior to November 2015.

## 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/A for the year ended December 31, 2015.

## 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 September 30, 2016:

Period	Total Number of Shares Repurchased (1)	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
July 1, 2016 - July 31, 2016	233	\$ 12.72	N/A	N/A
August 1, 2016 - August 31, 2016	209	12.83	N/A	N/A
September 1, 2016 - September 30, 2016	775	14.88	N/A	N/A
Total	1,217	\$ 14.11	N/A	N/A

(1) 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

Annual Meeting of Stockholders and Deadline for Stockholder Proposals

We currently intend to hold our next annual meeting of stockholders on or about Thursday, April 27, 2017. We will provide additional details concerning the exact date, time and location of the 2017 annual meeting in our proxy materials relating to the meeting.

64

---

Table of Contents

In April 2016, we postponed our 2016 annual meeting of stockholders as a result of our internal investigation into the accounting errors described in the Note 2 to the Financial Statements. Because this meeting was not rescheduled and held during the pendency of our internal investigation, we are informing stockholders of a change in the timing for the receipt of stockholders proposals and director nominations for the 2017 annual meeting from the deadlines previously disclosed in our proxy materials for the 2016 annual meeting.

We have set a deadline of February 13, 2017 for the receipt of proposals submitted in accordance with Rule 14a-8 under the Exchange Act for inclusion in our proxy materials for the 2017 annual meeting, which we believe is a reasonable time before we expect to begin to print and mail proxy materials for the 2017 annual meeting. Any stockholder proposals submitted in accordance with Rule 14a-8 under the Exchange Act for inclusion in our proxy materials for the 2017 annual meeting must be received at our principal executive offices at 4444 Brittmoore Road, Houston, Texas 77041, Attention: Corporate Secretary on or before the close of business on February 13, 2017, and must comply with all other applicable requirements set forth in Rule 14a-8 under the Exchange Act.

Our bylaws also establish an advance-notice procedure for stockholder proposals or director nominations to be brought before an annual meeting but not included in our proxy materials. Under these bylaws, we must receive written notice at our principal executive offices at 4444 Brittmoore Road, Houston, Texas 77041, Attention: Corporate Secretary of any stockholder proposal (other than a proposal submitted pursuant to Rule 14a-8 under the Exchange Act) or director nomination to be brought before the 2017 annual meeting no later than the close of business on January 14, 2017 for the proposal or nomination to be considered timely, and must also comply with the additional requirements for stockholder proposals and director nominations set forth in our bylaws. Stockholders are advised to review our bylaws, a copy of which may be obtained by making a written request to our Corporate Secretary.

Table of Contents

## Item 6. Exhibits

Exhibit No.	Description
2.1	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
2.2	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
3.1	Amended and Restated Certificate of Incorporation of Exterran Corporation, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on November 5, 2015
3.2	Amended and Restated Bylaws of Exterran Corporation, incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on November 5, 2015
10.1	Third Amendment, Consent and Waiver, dated August 24, 2016, to Amended and Restated Credit Agreement by and among Exterran Energy Solutions, L.P., Exterran Corporation, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 29, 2016
10.2	Fourth Amendment, Consent and Waiver, dated November 22, 2016, to Amended and Restated Credit Agreement by and among Exterran Energy Solutions, L.P., Exterran Corporation, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 22, 2016
10.3†*	First Amendment, Exterran Corporation Deferred Compensation Plan
10.4†*	2016 Form of Severance Benefit Agreement
10.5†*	2016 Form of Change of Control Agreement
31.1*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	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
32.2**	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
101.1*	Interactive data files pursuant to Rule 405 of Regulation S-T

---

† Management contract or compensatory plan or arrangement.

\* Filed herewith.

\*\* Furnished, not filed.

Table of Contents

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: January 4, 2017 By: /s/ DAVID A. BARTA  
David A. Barta  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

Table of Contents

## EXHIBIT INDEX

Exhibit No.	Description
2.1	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
2.2	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
3.1	Amended and Restated Certificate of Incorporation of Exterran Corporation, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on November 5, 2015
3.2	Amended and Restated Bylaws of Exterran Corporation, incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on November 5, 2015
10.1	Third Amendment, Consent and Waiver, dated August 24, 2016, to Amended and Restated Credit Agreement by and among Exterran Energy Solutions, L.P., Exterran Corporation, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 29, 2016
10.2	Fourth Amendment, Consent and Waiver, dated November 22, 2016, to Amended and Restated Credit Agreement by and among Exterran Energy Solutions, L.P., Exterran Corporation, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 22, 2016
10.3†*	First Amendment, Exterran Corporation Deferred Compensation Plan
10.4†*	2016 Form of Severance Benefit Agreement
10.5†*	2016 Form of Change of Control Agreement
31.1*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	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
32.2**	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
101.1*	Interactive data files pursuant to Rule 405 of Regulation S-T

---

† Management contract or compensatory plan or arrangement.

\* Filed herewith.

\*\* Furnished, not filed.