

Exterran Corp  
Form 10-Q  
May 02, 2019

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

Form 10-Q  
(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2019

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

|  |            |
|--|------------|
| 11000 Equity Drive                                   |            |
| Houston, Texas                                       | 77041      |
| (Address of principal executive offices)             | (Zip Code) |
| (281) 836-7000                                       |            |
| (Registrant's telephone number, including area code) |            |

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

| Title of each class                      | Ticker symbol(s) | Name of each exchange on which registered |
|--|------------------|---|
| Common Stock, \$0.01 par value per share | EXTN             | New York Stock Exchange                   |

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

Number of shares of the common stock of the registrant outstanding as of April 25, 2019: 36,327,036 shares.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|  | March 31,<br>2019 | December 31,<br>2018 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$ 18,576         | \$ 19,300            |
| Restricted cash  | 178               | 178                  |
| Accounts receivable, net of allowance of \$5,350 and \$5,474, respectively             | 266,286           | 248,467              |
| Inventory, net (Note 5)  | 166,891           | 150,689              |
| Contract assets (Note 2)   | 70,636            | 91,602               |
| Other current assets   | 40,173            | 44,234               |
| Current assets associated with discontinued operations (Note 4)                        | 8,570             | 11,605               |
| Total current assets   | 571,310           | 566,075              |
| Property, plant and equipment, net (Note 6)  | 943,488           | 901,577              |
| Operating lease right-of-use assets (Note 3)   | 29,782            | —                    |
| Deferred income taxes  | 12,024            | 11,370               |
| Intangible and other assets, net   | 84,329            | 86,371               |
| Long-term assets associated with discontinued operations (Note 4)                      | 1,629             | 1,661                |
| Total assets   | \$ 1,642,562      | \$ 1,567,054         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                      |
| Current liabilities:   |                   |                      |
| Accounts payable, trade  | \$ 188,109        | \$ 165,744           |
| Accrued liabilities  | 113,269           | 123,335              |
| Contract liabilities (Note 2)  | 139,975           | 153,483              |
| Current operating lease liabilities (Note 3)   | 6,738             | —                    |
| Current liabilities associated with discontinued operations (Note 4)                   | 11,713            | 14,767               |
| Total current liabilities  | 459,804           | 457,329              |
| Long-term debt (Note 7)  | 433,952           | 403,810              |
| Deferred income taxes  | 6,762             | 6,005                |
| Long-term contract liabilities (Note 2)  | 134,997           | 101,363              |
| Long-term operating lease liabilities (Note 3)   | 28,277            | —                    |
| Other long-term liabilities  | 35,821            | 39,812               |
| Long-term liabilities associated with discontinued operations (Note 4)                 | 5,765             | 5,914                |
| Total liabilities  | 1,105,378         | 1,014,233            |
| Commitments and contingencies (Note 15)  |                   |                      |
| Stockholders' equity:  |                   |                      |
| Preferred stock, \$0.01 par value per share; 50,000,000 shares authorized; zero issued | —                 | —                    |
|  | 375               | 369                  |

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|  |             |             |
|--|-------------|-------------|
| Common stock, \$0.01 par value per share; 250,000,000 shares authorized; 37,468,801 and 36,868,066 shares issued, respectively |             |             |
| Additional paid-in capital   | 738,448     | 734,458     |
| Accumulated deficit  | (220,255)   | (208,677)   |
| Treasury stock — 1,141,491 and 721,280 common shares, at cost, respectively  | (18,647)    | (11,560)    |
| Accumulated other comprehensive income   | 37,263      | 38,231      |
| Total stockholders' equity (Note 12)   | 537,184     | 552,821     |
| Total liabilities and stockholders' equity   | \$1,642,562 | \$1,567,054 |

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

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

|  | Three Months<br>Ended March 31, |          |
|--|---------------------------------|----------|
|  | 2019                            | 2018     |
| Revenues (Note 2):   |                                 |          |
| Contract operations  | \$85,700                        | \$96,493 |
| Aftermarket services   | 27,302                          | 26,371   |
| Product sales  | 238,444                         | 227,519  |
|  | 351,446                         | 350,383  |
| Costs and expenses:  |                                 |          |
| Cost of sales (excluding depreciation and amortization expense):                                 |                                 |          |
| Contract operations  | 28,591                          | 35,385   |
| Aftermarket services   | 20,718                          | 18,897   |
| Product sales  | 209,535                         | 200,336  |
| Selling, general and administrative  | 43,452                          | 44,242   |
| Depreciation and amortization  | 38,217                          | 31,029   |
| Long-lived asset impairment (Note 9)   | —                               | 1,804    |
| Restatement related charges  | 48                              | 621      |
| Restructuring and other charges (Note 10)  | 384                             | —        |
| Interest expense   | 8,163                           | 7,219    |
| Other (income) expense, net  | (1,245 )                        | 1,420    |
|  | 347,863                         | 340,953  |
| Income before income taxes   | 3,583                           | 9,430    |
| Provision for income taxes (Note 11)   | 9,140                           | 5,492    |
| Income (loss) from continuing operations   | (5,557 )                        | 3,938    |
| Income from discontinued operations, net of tax (Note 4)   | 163                             | 1,399    |
| Net income (loss)  | \$(5,394 )                      | \$5,337  |
| Basic net income (loss) per common share (Note 14):  |                                 |          |
| Income (loss) from continuing operations per common share  | \$(0.16 )                       | \$0.11   |
| Income from discontinued operations per common share   | 0.01                            | 0.04     |
| Net income (loss) per common share   | \$(0.15 )                       | \$0.15   |
| Diluted net income (loss) per common share (Note 14):  |                                 |          |
| Income (loss) from continuing operations per common share  | \$(0.16 )                       | \$0.11   |
| Income from discontinued operations per common share   | 0.01                            | 0.04     |
| Net income (loss) per common share   | \$(0.15 )                       | \$0.15   |
| Weighted average common shares outstanding used in net income (loss) per common share (Note 14): |                                 |          |
| Basic  | 35,646                          | 35,301   |
| Diluted  | 35,646                          | 35,373   |

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



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

|   | Three Months<br>Ended March 31, |         |
|---|---------------------------------|---------|
|   | 2019                            | 2018    |
| Net income (loss)                       | \$(5,394)                       | \$5,337 |
| Other comprehensive income (loss):      |                                 |         |
| Foreign currency translation adjustment | (968)                           | 757     |
| Comprehensive income (loss)             | \$(6,362)                       | \$6,094 |

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



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CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

(unaudited)

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income | Total      |
|---|-----------------|----------------------------------|------------------------|-------------------|---|------------|
| Balance, January 1, 2018  | \$ 362          | \$ 739,164                       | \$(223,510 )           | \$(6,937 )        | \$ 45,707                                       | \$ 554,786 |
| Cumulative-effect adjustment from adoption<br>of ASC 606 (Note 2) |                 |                                  | (10,021 )              |                   |   | (10,021 )  |
| Net income  |                 |                                  | 5,337                  |                   |   | 5,337      |
| Options exercised   |                 | 428                              |                        |                   |   | 428        |
| Foreign currency translation adjustment                           |                 |                                  |                        |                   | 757   | 757        |
| Treasury stock purchased  |                 |                                  |                        | (3,440 )          |   | (3,440 )   |
| Stock-based compensation, net of forfeitures                      | 5               | 3,599                            |                        |                   |   | 3,604      |
| Balance, March 31, 2018   | \$ 367          | \$ 743,191                       | \$(228,194 )           | \$(10,377)        | \$ 46,464                                       | \$ 551,451 |
| Balance, January 1, 2019  | \$ 369          | \$ 734,458                       | \$(208,677 )           | \$(11,560)        | \$ 38,231                                       | \$ 552,821 |
| Cumulative-effect adjustment from adoption<br>of ASC 842 (Note 1) |                 |                                  | (6,184 )               |                   |   | (6,184 )   |
| Net loss  |                 |                                  | (5,394 )               |                   |   | (5,394 )   |
| Foreign currency translation adjustment                           |                 |                                  |                        |                   | (968 )  | (968 )     |
| Treasury stock purchased  |                 |                                  |                        | (7,087 )          |   | (7,087 )   |
| Stock-based compensation, net of forfeitures                      | 6               | 3,990                            |                        |                   |   | 3,996      |
| Balance, March 31, 2019   | \$ 375          | \$ 738,448                       | \$(220,255 )           | \$(18,647)        | \$ 37,263                                       | \$ 537,184 |

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS(In thousands)  
(unaudited)

|  | Three Months Ended March 31,<br>2019 | 2018      |
|--|--------------------------------------|-----------|
| Cash flows from operating activities:  |                                      |           |
| Net income (loss)  | \$ (5,394 )                          | \$ 5,337  |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: |                                      |           |
| Depreciation and amortization  | 38,217                               | 31,029    |
| Long-lived asset impairment  | —                                    | 1,804     |
| Amortization of deferred financing costs   | 628                                  | 670       |
| Income from discontinued operations, net of tax                                      | (163 )                               | (1,399 )  |
| Provision for doubtful accounts  | —                                    | 215       |
| Gain on sale of property, plant and equipment  | (1,000 )                             | (227 )    |
| (Gain) loss on remeasurement of intercompany balances                                | (446 )                               | 630       |
| Loss on foreign currency derivatives   | 665                                  | —         |
| Stock-based compensation expense   | 3,996                                | 3,604     |
| Deferred income tax benefit  | (980 )                               | (1,706 )  |
| Changes in assets and liabilities:   |                                      |           |
| Accounts receivable and notes  | (16,684 )                            | 20,815    |
| Inventory  | (19,427 )                            | (34,292 ) |
| Contract assets  | 17,245                               | (31,397 ) |
| Other current assets   | 528                                  | 7,939     |
| Accounts payable and other liabilities   | 7,759                                | 6,469     |
| Contract liabilities   | 24,051                               | (6,429 )  |
| Other  | 30                                   | 564       |
|  | 49,025                               | 3,626     |

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|   |           |   |           |
|---|-----------|---|-----------|
| Net cash provided by continuing operations                                    |           |   |           |
| Net cash provided by (used in) discontinued operations                        | 16        |   | (2,849 )  |
| Net cash provided by operating activities                                     | 49,041    |   | 777       |
| Cash flows from investing activities:   |           |   |           |
| Capital expenditures  | (76,354   | ) | (49,219 ) |
| Proceeds from sale of property, plant and equipment                           | 4,012     |   | 2,260     |
| Settlement of foreign currency derivatives                                    | (207      | ) | —         |
| Net cash used in continuing operations  | (72,549   | ) | (46,959 ) |
| Net cash provided by discontinued operations                                  | —         |   | 66        |
| Net cash used in investing activities   | (72,549   | ) | (46,893 ) |
| Cash flows from financing activities:   |           |   |           |
| Proceeds from borrowings of debt  | 179,000   |   | 66,500    |
| Repayments of debt  | (149,113  | ) | (48,563 ) |
| Payments for debt issuance costs  | —         |   | (47 )     |
| Proceeds from stock options exercised   | —         |   | 428       |
| Purchases of treasury stock   | (6,701    | ) | (3,440 )  |
| Net cash provided by financing activities                                     | 23,186    |   | 14,878    |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (402      | ) | (571 )    |
| Net decrease in cash, cash equivalents and restricted cash                    | (724      | ) | (31,809 ) |
| Cash, cash equivalents and restricted cash at beginning of period             | 19,478    |   | 49,691    |
| Cash, cash equivalents and restricted cash at end of period                   | \$ 18,754 |   | \$ 17,882 |

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

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EXTERRAN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Description of Business and Basis of Presentation

Description of Business

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

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Exterran Corporation included herein have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S.”) (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP are not required in these interim financial statements and have been condensed or omitted. Management believes that the information furnished includes all adjustments of a normal recurring nature that are necessary to fairly present our consolidated financial position, results of operations and cash flows for the periods indicated. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements presented in our Annual Report on Form 10-K for the year ended December 31, 2018. 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 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 Pronouncements

We consider the applicability and impact of all Accounting Standard Updates (“ASUs”). ASUs not listed below were assessed and determined to be not applicable.



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## Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASC 842”). The update requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of operations. The update also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. On January 1, 2019, we adopted the standard using the transition method that allows us to initially apply ASC 842 as of January 1, 2019 and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Additionally, we elected certain practical expedients permitted by ASC 842 in applying the lease standard upon adoption. Upon implementation of the new lease standard, we did not reassess whether a contract is or contains a lease at the date of initial application. For contracts entered into before the transition date, we used the lease classification under the accounting standards in effect prior to adoption. We also excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application. As a result of this adoption, as a lessee, we recorded operating lease assets and lease liabilities of \$21.2 million and \$26.5 million, respectively, as of January 1, 2019. The difference between the lease assets and lease liabilities, including prepayments, was recorded as an adjustment to retained earnings. The adoption of this standard did not have a material effect on our statements of operations and cash flows. See [Note 3](#) for the required disclosures related to the impact of adopting this standard.

As a result of the adoption of the new lease guidance, the following adjustments were made to the balance sheet as of January 1, 2019 (in thousands):

|   | Impact of Changes in Accounting Policies |             |                 |
|---|--|-------------|-----------------|
|   | December 31, 2018                        | Adjustments | January 1, 2019 |
| <b>ASSETS</b>                               |  |             |                 |
| Other current assets                        | \$44,234                                 | \$ (506 )   | \$43,728        |
| Operating lease right-of-use assets         | —  | 21,181      | 21,181          |
| Intangible and other assets, net            | 86,371                                   | (353 )      | 86,018          |
| Total assets                                | \$1,567,054                              | \$ 20,322   | \$1,587,376     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |  |             |                 |
| Current operating lease liabilities         | \$—                                      | \$ 6,769    | \$6,769         |
| Long-term operating lease liabilities       | —  | 19,737      | 19,737          |
| Total liabilities                           | 1,014,233                                | 26,506      | 1,040,739       |
| Accumulated deficit                         | (208,677 )                               | (6,184 )    | (214,861 )      |
| Total stockholders' equity                  | 552,821                                  | (6,184 )    | 546,637         |
| Total liabilities and stockholders' equity  | \$1,567,054                              | \$ 20,322   | \$1,587,376     |

From a lessor perspective, new customer contracts entered into or modified on or after January 1, 2019 have been assessed in accordance with ASC 842 and ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASC 606”), as applicable and will be assessed accordingly in future periods. Additionally, for contracts determined to have lease and nonlease components, we have elected to apply the practical expedient to not separate the components and account for those components as a single component, if the applicable conditions are met. Furthermore, for contracts where the nonlease component is determined to be the predominant component, revenue will continue to be recognized in accordance with ASC 606. During the three months ended March 31, 2019, there were no new customer

contracts or amendments to existing customer contracts that were assessed to be within ASC 842.



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## Recently Issued Accounting Pronouncements Not Yet Adopted

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

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The update modifies the disclosure requirements on fair value measurements by removing, modifying and adding certain disclosure requirements. This update is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures upon issuance of the guidance and delayed adoption of the additional required disclosures is permitted until the effective date. Adoption will require a prospective or retrospective approach based on the specific amendments. We are currently evaluating the potential impact of the update on our financial statements.

## Note 2 - Revenue

On January 1, 2018, we adopted ASC 606 applying the modified retrospective method to all contracts that were not completed as of the date of adoption. We recorded a net increase to accumulated deficit of \$10.0 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606.

## Disaggregation of Revenue

The following tables present disaggregated revenue by products and services lines and by geographical regions for the three months ended March 31, 2019 and 2018 (in thousands):

|   | Three Months<br>Ended March 31, |           |
|---|---------------------------------|-----------|
| Revenue by Products and Services                  | 2019                            | 2018      |
| Contract Operations Segment:                      |                                 |           |
| Contract operations services <sup>(1)</sup>       | \$85,700                        | \$96,493  |
| Aftermarket Services Segment:                     |                                 |           |
| Operation and maintenance services <sup>(1)</sup> | \$12,673                        | \$13,875  |
| Part sales <sup>(2)</sup>                         | 9,796                           | 9,133     |
| Other services <sup>(1)</sup>                     | 4,833                           | 3,363     |
| Total aftermarket services                        | \$27,302                        | \$26,371  |
| Product Sales Segment:                            |                                 |           |
| Compression equipment <sup>(1)</sup>              | \$145,439                       | \$131,559 |
| Processing and treating equipment <sup>(1)</sup>  | 89,220                          | 86,115    |
| Production equipment <sup>(2)</sup>               | 2,435                           | 7,998     |
| Other product sales <sup>(1) (2)</sup>            | 1,350                           | 1,847     |
| Total product sales revenues                      | \$238,444                       | \$227,519 |

Total revenues \$351,446 \$350,383

- (1) Revenue recognized over time.
- (2) Revenue recognized at a point in time.

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| Revenue by Geographical Regions | Three Months<br>Ended March 31, |           |
|---------------------------------|---------------------------------|-----------|
|                                 | 2019                            | 2018      |
| North America                   | \$198,933                       | \$231,848 |
| Latin America                   | 60,559                          | 67,951    |
| Middle East and Africa          | 82,791                          | 26,125    |
| Asia Pacific                    | 9,163                           | 24,459    |
| Total revenues                  | \$351,446                       | \$350,383 |

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

The following table summarizes the expected timing of revenue recognition from unsatisfied performance obligations (commonly referred to as backlog) as of March 31, 2019 (in thousands):

|                   | Contract<br>Operations<br>Segment | Product<br>Sales<br>Segment |
|-------------------|-----------------------------------|-----------------------------|
| Remainder of 2019 | \$226,634                         | \$520,239                   |
| 2020              | 202,500                           | 29,531                      |
| 2021              | 207,204                           | 3,721                       |
| 2022              | 168,224                           | —                           |
| 2023              | 149,805                           | —                           |
| Thereafter        | 403,044                           | —                           |
| Total backlog     | \$1,357,411                       | \$553,491                   |

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

## Contract Assets and Contract Liabilities

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

|   | March 31, December 31, |           |
|---|------------------------|-----------|
|   | 2019                   | 2018      |
| Accounts receivables, net                 | \$266,286              | \$248,467 |
| Contract assets and contract liabilities: |                        |           |
| Current contract assets                   | 70,636                 | 91,602    |
| Long-term contract assets                 | 5,403                  | 5,430     |
| Current contract liabilities              | 139,975                | 153,483   |
| Long-term contract liabilities            | 134,997                | 101,363   |

During the three months ended March 31, 2019, revenue recognized from contract operations services included \$4.9 million of revenue deferred in previous periods. Revenue recognized during the three months ended March 31, 2019 from product sales performance obligations partially satisfied in previous periods was \$212.2 million, of which \$74.1 million was included in billings in excess of costs at the beginning of the period. The decreases in current contract assets and current contract liabilities during the three months ended March 31, 2019 were primarily driven by progression of product sales projects and the timing of milestone billings in the North America region. The increase in

long-term contract liabilities during the three months ended March 31, 2019 was primarily driven by advanced billings to contract operations customers in the Latin America region.

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## Note 3 - Leases

As discussed in Note 1, on January 1, 2019, we adopted ASC 842 retrospectively through a cumulative-effect adjustment as permitted under the specific transitional provisions in ASC 842. Results for reporting periods beginning after January 1, 2019 are presented under ASC 842, while prior period amounts have not been adjusted and continue to be reported under the accounting standards in effect for the prior period.

We primarily lease various offices, warehouses, equipment and vehicles. A right-of-use asset represents our right to use an underlying asset for the lease term and a lease liability represents our obligation to make lease payments arising from the lease. Our operating lease right-of-use assets and lease liabilities are recognized at the present value of lease payments over the lease term at the time of lease commencement, adjusted to include the impact of any lease incentives. Leases with initial terms of 12 months or less are not recorded on our balance sheets and leases that contain non-lease components are combined with the lease component and accounted for as a single lease component.

Our lease agreements are negotiated on an individual basis and contain a variety of different terms and conditions. They generally do not contain any material residual value guarantees or material restrictive covenants. Certain lease agreements include rental payments adjusted periodically for inflation. Additionally, some of our leases include one or more options to renew, with renewal terms that can extend the lease term from one month to 10 years. Options to renew our lease terms are included in determining the right-of-use asset and lease liability when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term. During the three months ended March 31, 2019, we recorded expense of \$2.0 million for our operating leases, of which \$0.1 million of expenses related to operating leases with initial terms of 12 months or less. We do not have any material leases, individually or in the aggregate, classified as a finance leasing arrangement.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. We used the incremental borrowing rate on January 1, 2019 for operating leases that commenced prior to that date. As of March 31, 2019, the weighted average remaining lease term and weighted average discount rate applied for our operating leases were nine years and 8%, respectively.

As of March 31, 2019, our lease assets and lease liabilities consisted of the following (in thousands):

| Leases                  | Classification                        | March 31,<br>2019 |
|-------------------------|---------------------------------------|-------------------|
| Assets                  |                                       |                   |
| Operating lease assets  | Operating lease right-of-use assets   | \$ 29,782         |
| Liabilities             |                                       |                   |
| Operating - current     | Current operating lease liabilities   | \$ 6,738          |
| Operating - noncurrent  | Long-term operating lease liabilities | 28,277            |
| Total lease liabilities |                                       | \$ 35,015         |

As of March 31, 2019, maturities of our operating lease liabilities consisted of the following (in thousands):

| Maturity of Operating Lease Liabilities | March 31,<br>2019 |
|---|-------------------|
| Remainder of 2019 <sup>(1)</sup>        | \$ 1,546          |
| 2020                                    | 6,998             |
| 2021                                    | 6,396             |
| 2022                                    | 5,437             |

|                                    |           |
|------------------------------------|-----------|
| 2023                               | 4,771     |
| Thereafter                         | 25,352    |
| Total lease payments               | 50,500    |
| Less: Imputed interest             | (15,485 ) |
| Present value of lease liabilities | \$ 35,015 |

(1) Includes anticipated lease incentives of \$3.8 million.

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As of December 31, 2018, commitments for future minimum rental payments with terms in excess of one year were as follows (in thousands):

| Future Minimum Rental Payments | December 31,<br>2018 |
|--------------------------------|----------------------|
| 2019                           | \$ 6,076             |
| 2020                           | 5,929                |
| 2021                           | 4,583                |
| 2022                           | 3,756                |
| 2023                           | 3,038                |
| Thereafter                     | 11,615               |
| Total lease payments           | \$ 34,997            |

The following table provides supplemental cash flow information related to leases for the three months ended March 31, 2019 (in thousands):

| Cash Flow Information  | Classification                            | Three<br>Months<br>Ended<br>March 31,<br>2019 |
|--|---|---|
| Cash paid for amounts included in the measurement of lease liabilities | Net cash provided by operating activities | \$ (2,061 )                                   |
| Leased assets obtained in exchange for new operating lease liabilities | Non-cash                                  | 9,864   |

## Note 4 - Discontinued Operations

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

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

|         | Three Months<br>Ended March 31,<br>2019 |        |        | Three Months Ended<br>March 31, 2018 |          |          |
|---------|---|--------|--------|--------------------------------------|----------|----------|
|         | Venezuela<br>EPC                        | Total  |        | Venezuela<br>EPC                     | Total    |          |
| Revenue | \$—                                     | \$ 137 | \$ 137 | \$—                                  | \$ 4,967 | \$ 4,967 |

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|   |        |        |        |        |         |         |
|---|--------|--------|--------|--------|---------|---------|
| Cost of sales (excluding depreciation and amortization expense) | —      | (316 ) | (316 ) | —      | 2,403   | 2,403   |
| Selling, general and administrative                             | 35     | 541    | 576    | 32     | 60      | 92      |
| Depreciation and amortization                                   | —      | —      | —      | —      | 428     | 428     |
| Other (income) expense, net                                     | —      | (328 ) | (328 ) | 1      | 599     | 600     |
| Provision for income taxes                                      | —      | 42     | 42     | —      | 45      | 45      |
| Income (loss) from discontinued operations, net of tax          | \$(35) | \$198  | \$163  | \$(33) | \$1,432 | \$1,399 |



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

|   | March 31, 2019 |             |          | December 31, 2018 |             |          |
|---|----------------|-------------|----------|-------------------|-------------|----------|
|   | Venezuela      | Belleli EPC | Total    | Venezuela         | Belleli EPC | Total    |
| Cash  | \$—            | \$—         | \$—      | \$3               | \$—         | \$3      |
| Accounts receivable   | —              | 7,883       | 7,883    | —                 | 11,509      | 11,509   |
| Contract assets   | —              | 277         | 277      | —                 | —           | —        |
| Other current assets  | —              | 410         | 410      | 7                 | 86          | 93       |
| Total current assets associated with discontinued operations      | —              | 8,570       | 8,570    | 10                | 11,595      | 11,605   |
| Property, plant and equipment, net                                | —              | —           | —        | —                 | 28          | 28       |
| Intangible and other assets, net                                  | —              | 1,629       | 1,629    | —                 | 1,633       | 1,633    |
| Total assets associated with discontinued operations              | \$—            | \$10,199    | \$10,199 | \$10              | \$13,256    | \$13,266 |
| Accounts payable  | \$—            | \$3,349     | \$3,349  | \$—               | \$4,382     | \$4,382  |
| Accrued liabilities   | 15             | 5,811       | 5,826    | 12                | 7,831       | 7,843    |
| Contract liabilities  | —              | 2,538       | 2,538    | —                 | 2,542       | 2,542    |
| Total current liabilities associated with discontinued operations | 15             | 11,698      | 11,713   | 12                | 14,755      | 14,767   |
| Other long-term liabilities                                       | —              | 5,765       | 5,765    | —                 | 5,914       | 5,914    |
| Total liabilities associated with discontinued operations         | \$15           | \$17,463    | \$17,478 | \$12              | \$20,669    | \$20,681 |

## Note 5 - Inventory, Net

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

|                    | March 31, 2019 | December 31, 2018 |
|--------------------|----------------|-------------------|
| Parts and supplies | \$ 103,147     | \$ 92,016         |
| Work in progress   | 52,942         | 49,547            |
| Finished goods     | 10,802         | 9,126             |
| Inventory, net     | \$ 166,891     | \$ 150,689        |

## Note 6 - Property, Plant and Equipment, Net

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

|   | March 31, 2019 | December 31, 2018 |
|---|----------------|-------------------|
| Compression equipment, processing facilities and other fleet assets | \$ 1,782,321   | \$ 1,713,153      |
| Land and buildings  | 102,166        | 101,571           |
| Transportation and shop equipment                                   | 82,618         | 82,960            |
| Computer software   | 56,972         | 54,572            |
| Other   | 46,034         | 47,210            |
|   | 2,070,111      | 1,999,466         |
| Accumulated depreciation  | (1,126,623)    | (1,097,889)       |
| Property, plant and equipment, net                                  | \$ 943,488     | \$ 901,577        |

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## Note 7 - Debt

Debt consisted of the following (in thousands):

|   | March 31,<br>2019 | December 31,<br>2018 |
|---|-------------------|----------------------|
| Revolving credit facility due October 2023                  | \$65,000          | \$ 35,000            |
| 8.125% senior notes due May 2025                            | 375,000           | 375,000              |
| Other debt  | 575               | 687                  |
| Unamortized deferred financing costs of 8.125% senior notes | (6,174 )          | (6,428 )             |
| Total debt  | 434,401           | 404,259              |
| Less: Amounts due within one year <sup>(1)</sup>            | (449 )            | (449 )               |
| Long-term debt  | \$433,952         | \$ 403,810           |

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

## Revolving Credit Facility

We and our wholly owned subsidiary, Exterran Energy Solutions, L.P. (“EESLP”), are parties to an amended and restated credit agreement (the “Credit Agreement”) consisting of a \$700.0 million revolving credit facility expiring in October 2023.

As of March 31, 2019, we had \$65.0 million in outstanding borrowings and \$55.4 million in outstanding letters of credit under our revolving credit facility. At March 31, 2019, taking into account guarantees through letters of credit, we had undrawn capacity of \$579.6 million under our revolving credit facility. Our Credit Agreement limits our senior secured leverage ratio (as defined in the Credit Agreement) on the last day of the fiscal quarter to no greater than 2.75 to 1.0. As a result of this limitation, \$547.6 million of the \$579.6 million of undrawn capacity under our revolving credit facility was available for additional borrowings as of March 31, 2019.

## 8.125% Senior Notes Due May 2025

In April 2017, our 100% owned subsidiaries EESLP and EES Finance Corp. issued \$375.0 million aggregate principal amount of 8.125% senior unsecured notes due 2025 (the “2017 Notes”). The 2017 Notes are guaranteed by us on a senior unsecured basis. We may redeem the 2017 Notes at any time in cash, in whole or part, at certain redemption prices, including the applicable make-whole premium plus accrued and unpaid interest, if any, to the date of redemption.

## Note 8 - Fair Value Measurements

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

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

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.

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## Recurring Fair Value Measurements

The following table presents our assets and liabilities measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018, with pricing levels as of the date of valuation (in thousands):

|  | March 31, 2019 |           |           | December 31, 2018 |           |           |
|--|----------------|-----------|-----------|-------------------|-----------|-----------|
|  | (Level 1)      | (Level 2) | (Level 3) | (Level 1)         | (Level 2) | (Level 3) |
| Foreign currency derivatives liability | \$—            | \$ 458    | \$ —      | N/A               | N/A       | N/A       |

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. During the three months ended March 31, 2019, we entered into forward currency exchange contracts with a total notional value of \$26.0 million that expire at varying dates through June 2019 to mitigate exposures in U.S. dollars related to the Argentine Peso, Brazilian Real and Indonesian Rupiah. We entered into these foreign currency derivatives to manage existing exposures to foreign exchange risk related to assets and liabilities recorded on our balance sheets and intercompany activity. 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 months ended March 31, 2019, we recognized losses of \$0.7 million on forward currency exchange contracts, which offset foreign currency gains recognized during the period. Our estimate of the fair value of foreign currency derivatives as of March 31, 2019 was determined using quoted forward exchange rates in active markets at March 31, 2019. Foreign currency derivative liabilities are included in accrued liabilities in our balance sheets.

## Nonrecurring Fair Value Measurements

The following table presents our assets and liabilities measured at fair value on a nonrecurring basis during the three months ended March 31, 2019 and 2018, with pricing levels as of the date of valuation (in thousands):

|   | Three months ended<br>March 31, 2019 |           |           | Three months ended<br>March 31, 2018 |           |           |
|---|--------------------------------------|-----------|-----------|--------------------------------------|-----------|-----------|
|   | (Level 1)                            | (Level 2) | (Level 3) | (Level 1)                            | (Level 2) | (Level 3) |
| Impaired assets—assets held for sale <sup>(1)</sup> | N/A                                  | N/A       | N/A       | \$—                                  | —         | \$ 21,026 |

Our estimate of the fair value of the impaired North America production equipment assets (“PEQ assets”), which <sup>(1)</sup> were classified as assets held for sale as of March 31, 2018 and sold in June 2018, was based on the expected net proceeds from the sale of the assets.

## Financial Instruments

Our financial instruments consist of cash, restricted cash, receivables, payables and debt. At March 31, 2019 and December 31, 2018, the estimated fair values of cash, restricted cash, receivables and payables approximated their carrying amounts as reflected in our balance sheets due to the short-term nature of these financial instruments.

The fair value of the 2017 Notes was estimated based on model derived calculations using market yields observed in active markets, which are Level 2 inputs. As of March 31, 2019 and December 31, 2018, the carrying amount of the 2017 Notes, excluding unamortized deferred financing costs, of \$375.0 million was estimated to have a fair value of \$383.0 million and \$362.0 million, respectively. Due to the variable rate nature of our revolving credit facility, the carrying value as of March 31, 2019 and December 31, 2018 approximated the fair value as the rate was comparable to the then-current market rate at which debt with similar terms could have been obtained.

Note 9 - Long-Lived Asset Impairment

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

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In the fourth quarter of 2017, we classified our PEQ assets primarily related to inventory and property, plant and equipment, net, within our product sales business as assets held for sale in our balance sheets. In June 2018, we completed the sale of our PEQ assets. During the three months ended March 31, 2018, we recorded an impairment of \$1.8 million to reduce these assets to their approximate fair values based on the expected net proceeds.

## Note 10 - Restructuring and Other Charges

In the second quarter of 2018, we initiated a relocation plan in the North America region to better align our contract operations business with our customers. As a result of this plan, during the three months ended March 31, 2019, we incurred restructuring and other charges of \$0.4 million related to relocations costs. As of March 31, 2019, the accrued liability balance related to this plan was \$0.3 million. The charges incurred in conjunction with this relocation plan are included in restructuring and other charges in our statements of operations. We do not expect to incur additional charges with respect to relocation costs related to this relocation plan.

The following table summarizes the changes to our accrued liability balance related to restructuring and other charges for the three months ended March 31, 2019 (in thousands):

|                                      | Restructuring<br>and Other<br>Charges |
|--------------------------------------|---------------------------------------|
| Beginning balance at January 1, 2019 | \$ 309                                |
| Additions for costs expensed         | 384                                   |
| Reductions for payments              | (411 )                                |
| Ending balance at March 31, 2019     | \$ 282                                |

## Note 11 - Provision for Income Taxes

Our effective tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amounts of income we earn, or losses we incur, in those jurisdictions. It is also affected by discrete items that may occur in any given year but are not consistent from year to year. Our effective tax rate is also impacted by valuation allowances recorded against loss carryforwards in the U.S. and certain other jurisdictions, foreign withholding taxes and changes in foreign currency exchange rates.

The following items had the most significant impact on the difference between our statutory U.S. federal income tax rate of 21.0% and our effective tax rate for the quarter ended March 31, 2019: (i) a \$3.0 million negative impact resulting from the recording of valuation allowances recorded against U.S. federal net operating losses and (ii) a \$3.4 million negative impact resulting from foreign currency devaluations in Argentina. Our effective tax rate for the three months ended March 31, 2019 increased over the comparative period of March 31, 2018 primarily due to recording additional valuation allowance in the U.S. and additional tax related to foreign exchange movement in Argentina in 2019, and a valuation allowance release in Indonesia in the comparative period, partially offset by a decrease in foreign withholding tax.

## Note 12 - Stockholders' Equity

## Share Repurchase Program

On February 20, 2019, our board of directors approved a share repurchase program under which the Company is authorized to purchase up to \$100.0 million of its outstanding common stock through February 2022. The timing and method of any repurchases under the program will depend on a variety of factors, including prevailing market

conditions among others. Purchases under the program may be suspended or discontinued at any time and we have no obligation to repurchase any amount of our common shares under the program. Shares of common stock acquired through the repurchase program are held in treasury at cost. During the three months ended March 31, 2019, we repurchased 268,500 shares of our common stock for \$4.7 million in connection with our share repurchase program. As of March 31, 2019, the remaining authorized repurchase amount under the share repurchase program was \$95.3 million. Additionally, treasury stock purchased during the three months ended March 31, 2019 and 2018 included shares withheld to satisfy employees' tax withholding obligations in connection with vesting of restricted stock awards.

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## Note 13 - Stock-Based Compensation

## Stock Options

There were no stock options granted during the three months ended March 31, 2019.

## Restricted Stock, Restricted Stock Units and Performance Units

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

The table below presents the changes in restricted stock, restricted stock units and performance units for our common stock during the three months ended March 31, 2019.

|  | Shares<br>(in thousands) | Weighted<br>Average<br>Grant-Date<br>Fair<br>Value<br>Per Share |
|--|--------------------------|---|
| Non-vested awards, January 1, 2019               | 1,044                    | \$ 25.89  |
| Granted  | 806                      | 17.01   |
| Vested   | (427)                    | ) 23.06   |
| Cancelled  | (16)                     | ) 27.24   |
| Non-vested awards, March 31, 2019 <sup>(1)</sup> | 1,407                    | 21.65   |

<sup>(1)</sup> 361,000 of the non-vested awards as of March 31, 2019 are presented within our balance sheets as liabilities due to their expected cash settlement.

As of March 31, 2019, we estimate \$25.2 million of unrecognized compensation cost related to unvested restricted stock, restricted stock units and performance units issued to our employees to be recognized over the weighted-average vesting period of 1.9 years.

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

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

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



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

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The following table presents a reconciliation of basic and diluted net income (loss) per common share for the three months ended March 31, 2019 and 2018 (in thousands, except per share data):

|   | Three Months<br>Ended March 31, |         |
|---|---------------------------------|---------|
|   | 2019                            | 2018    |
| Numerator for basic and diluted net income (loss) per common share:                             |                                 |         |
| Income (loss) from continuing operations  | \$(5,557)                       | \$3,938 |
| Income from discontinued operations, net of tax   | 163                             | 1,399   |
| Less: Net income attributable to participating securities                                       | —                               | (138 )  |
| Net income (loss) — used in basic and diluted net income (loss) per common share                | \$(5,394)                       | \$5,199 |
|   |                                 |         |
| Weighted average common shares outstanding including participating securities                   | 36,462                          | 36,236  |
| Less: Weighted average participating securities outstanding                                     | (816 )                          | (935 )  |
| Weighted average common shares outstanding — used in basic net income (loss) per common share   | 35,646                          | 35,301  |
| Net dilutive potential common shares issuable:  |                                 |         |
| On exercise of options and vesting of restricted stock units                                    | *                               | 72      |
| Weighted average common shares outstanding — used in diluted net income (loss) per common share | 35,646                          | 35,373  |
|   |                                 |         |
| Net income (loss) per common share:   |                                 |         |
| Basic   | \$(0.15 )                       | \$0.15  |
| Diluted   | \$(0.15 )                       | \$0.15  |

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

The following table shows the potential shares of common stock issuable for the three months ended March 31, 2019 and 2018 that were excluded from computing diluted net income (loss) per common share as their inclusion would have been anti-dilutive (in thousands):

|  | Three<br>Months<br>Ended<br>March 31,<br>2019 2018 |    |
|--|--|----|
| Net dilutive potential common shares issuable:                                   |  |    |
| On exercise of options where exercise price is greater than average market value | 74   | 35 |
| Net dilutive potential common shares issuable                                    | 74   | 35 |

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### Note 15 - Commitments and Contingencies

#### Contingencies

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 March 31, 2019 and December 31, 2018, we had accrued \$5.2 million and \$5.1 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, commercial automobile liability and other coverage we believe is appropriate. We believe that our insurance coverage is customary for the industry and adequate for our business; however, losses and liabilities not covered by insurance would increase our costs.

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

#### Litigation and Claims

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

Contemporaneously with filing the Form 8-K on April 26, 2016, we self-reported the errors and possible irregularities at Belleli EPC to the SEC. On April 8, 2019, the SEC provided written notice to us stating that based on the information they have as of this date, they have concluded their investigation and do not intend to recommend enforcement action by the SEC against us in connection with this matter.

#### Indemnifications

In conjunction with, and effective as of the completion of, the Spin-off, we entered into the separation and distribution agreement with Archrock, which governs, among other things, the treatment between Archrock and us relating to certain aspects of indemnification, insurance, confidentiality and cooperation. Generally, the separation and

distribution agreement provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of our business with us and financial responsibility for the obligations and liabilities of Archrock's business with Archrock. Pursuant to the agreement, we and Archrock will generally release the other party from all claims arising prior to the Spin-off that relate to the other party's business, subject to certain exceptions. Additionally, in conjunction with, and effective as of the completion of, the Spin-off, we entered into the tax matters agreement with Archrock. Under the tax matters agreement and subject to certain exceptions, we are generally liable for, and indemnify Archrock against, taxes attributable to our business, and Archrock is generally liable for, and indemnify us against, all taxes attributable to its business. We are generally liable for, and indemnify Archrock against, 50% of certain taxes that are not clearly attributable to our business or Archrock's business. Any payment made by us to Archrock, or by Archrock to us, is treated by all parties for tax purposes as a nontaxable distribution or capital contribution, respectively, made immediately prior to the Spin-off.

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## Note 16 - Reportable Segments

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

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

The following table presents revenue and other financial information by reportable segment for the three months ended March 31, 2019 and 2018 (in thousands):

| Three Months Ended          | Contract<br>Operations | Aftermarket<br>Services | Product<br>Sales | Reportable<br>Segments<br>Total |
|-----------------------------|------------------------|-------------------------|------------------|---------------------------------|
| March 31, 2019:             |                        |                         |                  |                                 |
| Revenue                     | \$ 85,700              | \$ 27,302               | \$ 238,444       | \$ 351,446                      |
| Gross margin <sup>(1)</sup> | 57,109                 | 6,584                   | 28,909           | 92,602                          |
| March 31, 2018:             |                        |                         |                  |                                 |
| Revenue                     | \$ 96,493              | \$ 26,371               | \$ 227,519       | \$ 350,383                      |
| Gross margin <sup>(1)</sup> | 61,108                 | 7,474                   | 27,183           | 95,765                          |

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

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

|                                     | Three Months<br>Ended March 31, |          |
|-------------------------------------|---------------------------------|----------|
|                                     | 2019                            | 2018     |
| Income before income taxes          | \$3,583                         | \$9,430  |
| Selling, general and administrative | 43,452                          | 44,242   |
| Depreciation and amortization       | 38,217                          | 31,029   |
| Long-lived asset impairment         | —                               | 1,804    |
| Restatement related charges         | 48                              | 621      |
| Restructuring and other charges     | 384                             | —        |
| Interest expense                    | 8,163                           | 7,219    |
| Other (income) expense, net         | (1,245 )                        | 1,420    |
| Total gross margin                  | \$92,602                        | \$95,765 |

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Note 17 - Supplemental Guarantor Financial Information

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

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Condensed Consolidating Balance Sheet  
 March 31, 2019  
 (In thousands)

|   | Parent<br>Guarantor | Issuers      | Non-<br>Guarantor<br>Subsidiaries | Eliminations   | Consolidation |
|---|---------------------|--------------|-----------------------------------|----------------|---------------|
| <b>ASSETS</b>   |                     |              |                                   |                |               |
| Cash and cash equivalents                                     | \$ 27               | \$ 1,116     | \$ 17,433                         | \$—            | \$ 18,576     |
| Restricted cash   | —                   | —            | 178                               | —              | 178           |
| Accounts receivable, net                                      | —                   | 97,099       | 169,187                           | —              | 266,286       |
| Inventory, net  | —                   | 97,037       | 69,854                            | —              | 166,891       |
| Contract assets   | —                   | 47,380       | 23,256                            | —              | 70,636        |
| Intercompany receivables                                      | —                   | 172,543      | 385,986                           | (558,529 )     | —             |
| Other current assets  | —                   | 6,970        | 33,203                            | —              | 40,173        |
| Current assets associated with discontinued operations        | —                   | —            | 8,570                             | —              | 8,570         |
| Total current assets  | 27                  | 422,145      | 707,667                           | (558,529 )     | 571,310       |
| Property, plant and equipment, net                            | —                   | 311,674      | 631,814                           | —              | 943,488       |
| Operating lease right-of-use assets                           | —                   | 12,374       | 17,408                            | —              | 29,782        |
| Investment in affiliates                                      | 543,275             | 886,456      | (343,181 )                        | (1,086,550 )   | —             |
| Deferred income taxes   | —                   | 5,493        | 6,531                             | —              | 12,024        |
| Intangible and other assets, net                              | —                   | 31,847       | 52,482                            | —              | 84,329        |
| Long-term assets associated with discontinued operations      | —                   | —            | 1,629                             | —              | 1,629         |
| Total assets  | \$ 543,302          | \$ 1,669,989 | \$ 1,074,350                      | \$ (1,645,079) | \$ 1,642,562  |
| <b>LIABILITIES AND EQUITY</b>                                 |                     |              |                                   |                |               |
| Accounts payable, trade                                       | \$—                 | \$ 142,709   | \$ 45,400                         | \$—            | \$ 188,109    |
| Accrued liabilities   | 386                 | 33,979       | 78,904                            | —              | 113,269       |
| Contract liabilities  | —                   | 77,426       | 62,549                            | —              | 139,975       |
| Current operating lease liabilities                           | —                   | 1,967        | 4,771                             | —              | 6,738         |
| Intercompany payables   | 5,732               | 385,986      | 166,811                           | (558,529 )     | —             |
| Current liabilities associated with discontinued operations   | —                   | —            | 11,713                            | —              | 11,713        |
| Total current liabilities                                     | 6,118               | 642,067      | 370,148                           | (558,529 )     | 459,804       |
| Long-term debt  | —                   | 433,952      | —                                 | —              | 433,952       |
| Deferred income taxes   | —                   | —            | 6,762                             | —              | 6,762         |
| Long-term contract liabilities                                | —                   | 22,851       | 112,146                           | —              | 134,997       |
| Long-term operating lease liabilities                         | —                   | 16,484       | 11,793                            | —              | 28,277        |
| Other long-term liabilities                                   | —                   | 11,360       | 24,461                            | —              | 35,821        |
| Long-term liabilities associated with discontinued operations | —                   | —            | 5,765                             | —              | 5,765         |
| Total liabilities   | 6,118               | 1,126,714    | 531,075                           | (558,529 )     | 1,105,378     |
| Total equity  | 537,184             | 543,275      | 543,275                           | (1,086,550 )   | 537,184       |
| Total liabilities and equity                                  | \$ 543,302          | \$ 1,669,989 | \$ 1,074,350                      | \$ (1,645,079) | \$ 1,642,562  |





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Condensed Consolidating Balance Sheet  
December 31, 2018  
(In thousands)

|   | Parent<br>Guarantor | Issuers      | Non-<br>Guarantor<br>Subsidiaries | Eliminations   | Consolidation |
|---|---------------------|--------------|-----------------------------------|----------------|---------------|
| <b>ASSETS</b>   |                     |              |                                   |                |               |
| Cash and cash equivalents                                     | \$ 46               | \$ 1,185     | \$ 18,069                         | \$—            | \$ 19,300     |
| Restricted cash   | —                   | —            | 178                               | —              | 178           |
| Accounts receivable, net                                      | —                   | 92,880       | 155,587                           | —              | 248,467       |
| Inventory, net  | —                   | 87,972       | 62,717                            | —              | 150,689       |
| Contract assets   | —                   | 67,323       | 24,279                            | —              | 91,602        |
| Intercompany receivables                                      | —                   | 158,977      | 379,628                           | (538,605 )     | —             |
| Other current assets  | —                   | 7,744        | 36,490                            | —              | 44,234        |
| Current assets associated with discontinued operations        | —                   | —            | 11,605                            | —              | 11,605        |
| Total current assets  | 46                  | 416,081      | 688,553                           | (538,605 )     | 566,075       |
| Property, plant and equipment, net                            | —                   | 303,813      | 597,764                           | —              | 901,577       |
| Investment in affiliates                                      | 554,207             | 870,959      | (316,752 )                        | (1,108,414 )   | —             |
| Deferred income taxes   | —                   | 5,493        | 5,877                             | —              | 11,370        |
| Intangible and other assets, net                              | —                   | 32,046       | 54,325                            | —              | 86,371        |
| Long-term assets associated with discontinued operations      | —                   | —            | 1,661                             | —              | 1,661         |
| Total assets  | \$ 554,253          | \$ 1,628,392 | \$ 1,031,428                      | \$ (1,647,019) | \$ 1,567,054  |
| <b>LIABILITIES AND EQUITY</b>                                 |                     |              |                                   |                |               |
| Accounts payable, trade                                       | \$—                 | \$ 133,291   | \$ 32,453                         | \$—            | \$ 165,744    |
| Accrued liabilities   | —                   | 47,012       | 76,323                            | —              | 123,335       |
| Contract liabilities  | —                   | 82,367       | 71,116                            | —              | 153,483       |
| Intercompany payables   | 1,432               | 379,628      | 157,545                           | (538,605 )     | —             |
| Current liabilities associated with discontinued operations   | —                   | —            | 14,767                            | —              | 14,767        |
| Total current liabilities                                     | 1,432               | 642,298      | 352,204                           | (538,605 )     | 457,329       |
| Long-term debt  | —                   | 403,810      | —                                 | —              | 403,810       |
| Deferred income taxes   | —                   | —            | 6,005                             | —              | 6,005         |
| Long-term contract liabilities                                | —                   | 17,226       | 84,137                            | —              | 101,363       |
| Other long-term liabilities                                   | —                   | 10,851       | 28,961                            | —              | 39,812        |
| Long-term liabilities associated with discontinued operations | —                   | —            | 5,914                             | —              | 5,914         |
| Total liabilities   | 1,432               | 1,074,185    | 477,221                           | (538,605 )     | 1,014,233     |
| Total equity  | 552,821             | 554,207      | 554,207                           | (1,108,414 )   | 552,821       |
| Total liabilities and equity                                  | \$ 554,253          | \$ 1,628,392 | \$ 1,031,428                      | \$ (1,647,019) | \$ 1,567,054  |



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Condensed Consolidating Statement of Operations and Comprehensive Loss  
 Three Months Ended March 31, 2019  
 (In thousands)

|   | Parent<br>Guarantor | Issuers     | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidation |
|---|---------------------|-------------|-----------------------------------|--------------|---------------|
| Revenues  | \$ —                | \$214,790   | \$ 164,631                        | \$ (27,975 ) | \$ 351,446    |
| Cost of sales (excluding depreciation and amortization expense) | —                   | 185,306     | 101,513                           | (27,975 )    | 258,844       |
| Selling, general and administrative                             | 297                 | 22,107      | 21,048                            | —            | 43,452        |
| Depreciation and amortization                                   | —                   | 14,927      | 23,290                            | —            | 38,217        |
| Restatement related charges                                     | —                   | 48          | —                                 | —            | 48            |
| Restructuring and other charges                                 | —                   | —           | 384                               | —            | 384           |
| Interest expense  | —                   | 8,470       | (307 )                            | —            | 8,163         |
| Intercompany charges, net                                       | —                   | 1,919       | (1,919 )                          | —            | —             |
| Equity in (income) loss of affiliates                           | 5,097               | (15,033 )   | 20,130                            | (10,194 )    | —             |
| Other (income) expense, net                                     | —                   | (41 )       | (1,204 )                          | —            | (1,245 )      |
| Income (loss) before income taxes                               | (5,394 )            | (2,913 )    | 1,696                             | 10,194       | 3,583         |
| Provision for income taxes                                      | —                   | 2,184       | 6,956                             | —            | 9,140         |
| Loss from continuing operations                                 | (5,394 )            | (5,097 )    | (5,260 )                          | 10,194       | (5,557 )      |
| Income from discontinued operations, net of tax                 | —                   | —           | 163                               | —            | 163           |
| Net loss  | (5,394 )            | (5,097 )    | (5,097 )                          | 10,194       | (5,394 )      |
| Other comprehensive loss  | (968 )              | (968 )      | (968 )                            | 1,936        | (968 )        |
| Comprehensive loss attributable to Exterran stockholders        | \$ (6,362 )         | \$ (6,065 ) | \$ (6,065 )                       | \$ 12,130    | \$ (6,362 )   |

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Condensed Consolidating Statement of Operations and Comprehensive Income  
 Three Months Ended March 31, 2018  
 (In thousands)

|   | Parent<br>Guarantor | Issuers   | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidation |
|---|---------------------|-----------|-----------------------------------|--------------|---------------|
| Revenues  | \$ —                | \$258,316 | \$ 116,391                        | \$ (24,324 ) | \$ 350,383    |
| Cost of sales (excluding depreciation and amortization expense) | —                   | 218,164   | 60,778                            | (24,324 )    | 254,618       |
| Selling, general and administrative                             | 283                 | 20,965    | 22,994                            | —            | 44,242        |
| Depreciation and amortization                                   | —                   | 9,327     | 21,702                            | —            | 31,029        |
| Long-lived asset impairment                                     | —                   | 1,804     | —                                 | —            | 1,804         |
| Restatement related charges                                     | —                   | 621       | —                                 | —            | 621           |
| Interest expense  | —                   | 7,213     | 6                                 | —            | 7,219         |
| Intercompany charges, net                                       | —                   | 1,725     | (1,725 )                          | —            | —             |
| Equity in (income) loss of affiliates                           | (5,620 )            | (10,054 ) | 2,646                             | 13,028       | —             |
| Other (income) expense, net                                     | —                   | (49 )     | 1,469                             | —            | 1,420         |
| Income before income taxes                                      | 5,337               | 8,600     | 8,521                             | (13,028 )    | 9,430         |
| Provision for income taxes                                      | —                   | 1,192     | 2,512                             | 1,788        | 5,492         |
| Income from continuing operations                               | 5,337               | 7,408     | 6,009                             | (14,816 )    | 3,938         |
| Income from discontinued operations, net of tax                 | —                   | —         | 1,399                             | —            | 1,399         |
| Net income  | 5,337               | 7,408     | 7,408                             | (14,816 )    | 5,337         |
| Other comprehensive income                                      | 757                 | 757       | 757                               | (1,514 )     | 757           |
| Comprehensive income attributable to Exterran stockholders      | \$ 6,094            | \$8,165   | \$ 8,165                          | \$ (16,330 ) | \$ 6,094      |

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Condensed Consolidating Statement of Cash Flows  
 Three Months Ended March 31, 2019  
 (In thousands)

|   | Parent<br>Guarantor | Issuers    | Non-<br>Guarantor<br>Subsidiaries | Elimination | Consolidation |
|---|---------------------|------------|-----------------------------------|-------------|---------------|
| Cash flows from operating activities:   |                     |            |                                   |             |               |
| Net cash provided by (used in) continuing operations                          | \$ (48 )            | \$(1,302)  | \$ 50,375                         | \$ —        | \$ 49,025     |
| Net cash provided by discontinued operations                                  | —                   | —          | 16                                | —           | 16            |
| Net cash provided by (used in) operating activities                           | (48 )               | (1,302 )   | 50,391                            | —           | 49,041        |
| Cash flows from investing activities:   |                     |            |                                   |             |               |
| Capital expenditures  | —                   | (35,065 )  | (41,289 )                         | —           | (76,354 )     |
| Proceeds from sale of property, plant and equipment                           | —                   | 721        | 3,291                             | —           | 4,012         |
| Intercompany transfers  | —                   | (4,300 )   | (12,627 )                         | 16,927      | —             |
| Settlement of foreign currency derivatives                                    | —                   | (207 )     | —                                 | —           | (207 )        |
| Net cash used in investing activities   | —                   | (38,851 )  | (50,625 )                         | 16,927      | (72,549 )     |
| Cash flows from financing activities:   |                     |            |                                   |             |               |
| Proceeds from borrowings of debt  | —                   | 179,000    | —                                 | —           | 179,000       |
| Repayments of debt  | —                   | (149,113 ) | —                                 | —           | (149,113 )    |
| Intercompany transfers  | 4,300               | 12,627     | —                                 | (16,927)    | —             |
| Purchases of treasury stock   | (4,271 )            | (2,430 )   | —                                 | —           | (6,701 )      |
| Net cash provided by financing activities                                     | 29                  | 40,084     | —                                 | (16,927)    | 23,186        |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | —                   | —          | (402 )                            | —           | (402 )        |
| Net decrease in cash, cash equivalents and restricted cash                    | (19 )               | (69 )      | (636 )                            | —           | (724 )        |
| Cash, cash equivalents and restricted cash at beginning of period             | 46                  | 1,185      | 18,247                            | —           | 19,478        |
| Cash, cash equivalents and restricted cash at end of period                   | \$ 27               | \$ 1,116   | \$ 17,611                         | \$ —        | \$ 18,754     |

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Condensed Consolidating Statement of Cash Flows  
 Three Months Ended March 31, 2018  
 (In thousands)

|  | Parent<br>Guarantor | Issuers    | Non-<br>Guarantor<br>Subsidiaries | Elimination | Consolidation |
|--|---------------------|------------|-----------------------------------|-------------|---------------|
| Cash flows from operating activities:  |                     |            |                                   |             |               |
| Net cash provided by (used in) continuing operations                             | \$ (78 )            | \$(22,466) | \$ 26,170                         | \$ —        | \$ 3,626      |
| Net cash used in discontinued operations   | —                   | —          | (2,849 )                          | —           | (2,849 )      |
| Net cash provided by (used in) operating activities                              | (78 )               | (22,466 )  | 23,321                            | —           | 777           |
| Cash flows from investing activities:  |                     |            |                                   |             |               |
| Capital expenditures   | —                   | (17,234 )  | (31,985 )                         | —           | (49,219 )     |
| Proceeds from sale of property, plant and equipment                              | —                   | —          | 2,260                             | —           | 2,260         |
| Intercompany transfers   | —                   | (342 )     | (2,059 )                          | 2,401       | —             |
| Net cash used in continuing operations   | —                   | (17,576 )  | (31,784 )                         | 2,401       | (46,959 )     |
| Net cash provided by discontinued operations                                     | —                   | —          | 66                                | —           | 66            |
| Net cash used in investing activities  | —                   | (17,576 )  | (31,718 )                         | 2,401       | (46,893 )     |
| Cash flows from financing activities:  |                     |            |                                   |             |               |
| Proceeds from borrowings of debt   | —                   | 66,500     | —                                 | —           | 66,500        |
| Repayments of debt   | —                   | (48,563 )  | —                                 | —           | (48,563 )     |
| Intercompany transfers   | 341                 | 2,060      | —                                 | (2,401)     | —             |
| Payments for debt issuance costs   | —                   | (47 )      | —                                 | —           | (47 )         |
| Proceeds from stock options exercised  | —                   | 428        | —                                 | —           | 428           |
| Purchases of treasury stock  | —                   | (3,440 )   | —                                 | —           | (3,440 )      |
| Net cash provided by financing activities  | 341                 | 16,938     | —                                 | (2,401)     | 14,878        |
| Effect of exchange rate changes on cash, cash equivalents<br>and restricted cash | —                   | —          | (571 )                            | —           | (571 )        |
| Net increase (decrease) in cash, cash equivalents and<br>restricted cash         | 263                 | (23,104 )  | (8,968 )                          | —           | (31,809 )     |
| Cash, cash equivalents and restricted cash at beginning of<br>period             | 397                 | 24,195     | 25,099                            | —           | 49,691        |
| Cash, cash equivalents and restricted cash at end of period                      | \$ 660              | \$ 1,091   | \$ 16,131                         | \$ —        | \$ 17,882     |

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and the notes thereto included in the Condensed Consolidated Financial Statements in Part I, Item 1 ("Financial Statements") of this report and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018.

#### 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; 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 plans and objectives of our management for our future operations. You can identify many of these statements by looking for words such as "believe," "expect," "intend," "project," "anticipate," "estimate," "will continue" or similar words or the negative thereof.

Such forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will prove to be correct. Known material factors that could cause our actual results to differ materially from the expectations reflected in these forward-looking statements include the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2018, and those set forth from time to time in our filings with the Securities and Exchange Commission ("SEC"), which are available through our website at [www.exterran.com](http://www.exterran.com) and through the SEC's website at [www.sec.gov](http://www.sec.gov), as well as the following risks and uncertainties:

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

- timely and cost-effective execution of projects;
- enhancing our asset utilization, particularly with respect to our fleet of compressors;
- integrating acquired businesses;
- generating sufficient cash to satisfy our operating needs, existing capital commitments and other contractual cash obligations, including our debt obligations; and
- accessing the financial markets at an acceptable cost;
- our ability to accurately estimate our costs and time required under our fixed price contracts;



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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; and  
our level of indebtedness and ability to fund our business.

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

### General

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

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

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

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

We refer to the condensed consolidated 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.

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### Overview

### Industry Conditions and Trends

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

From a long-term perspective, industry observers anticipate strong global demand for hydrocarbons, including demand for liquefied natural gas. However, customer cash flows and focus on returns on capital could drive customer investment priorities. Industry observers believe shareholders are encouraging management teams of energy producers to focus operational and compensation strategies on returns and cash flow generation rather than solely on production growth. To accomplish these strategies, energy producers may need to better prioritize capital spending, which could impact resource allocation and ultimately the amount of new projects and capital spending by our customers.

### Our Performance Trends and Outlook

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

Historically, oil, natural gas and natural gas liquids prices and the level of drilling and exploration activity in North America have been volatile. The Henry Hub spot price for natural gas was \$2.73 per MMBtu at March 31, 2019, which was 16% and 3% lower than the prices at December 31, 2018 and March 31, 2018, respectively, and the U.S. natural gas liquid composite price was \$6.46 per MMBtu for the month of January 2019, which was 1% higher than the price for the month of December 2018 and 10% lower than the price for the month of March 2018. In addition, the West Texas Intermediate crude oil spot price as of March 31, 2019 was 33% higher than the price at December 31, 2018 and 7% lower than the price at March 31, 2018. Volatility in commodity prices and an industry trend towards disciplined capital spending have caused timing uncertainties in demand recently. These uncertainties are resulting in tentative customer spending and investments in equipment in North America. Booking activity levels for our manufactured products in North America during the three months ended March 31, 2019 were \$52.8 million, which represents decreases of 66% and 72% compared to the three months ended December 31, 2018 and March 31, 2018, respectively.

Longer-term fundamentals in our international markets partially depend on international oil and gas infrastructure projects, many of which are based on the longer-term plans of our customers that can be driven by their local market demand and local pricing for natural gas. As a result, we believe our international customers make decisions based on longer-term fundamentals that may be less tied to near term commodity prices than our North American customers. Over the long term, we believe the demand for our products and services in international markets will continue, and we expect to have opportunities to grow our international businesses. Booking activity levels for our manufactured products in international markets during the three months ended March 31, 2019 were \$33.4 million, which represents increases of 971% and 1,323% compared to the three months ended December 31, 2018 and March 31, 2018,

respectively.

Aggregate booking activity levels for our manufactured products in North America and international markets during the three months ended March 31, 2019 were \$86.2 million, which represents decreases of 46% and 55% compared to the three months ended December 31, 2018 and March 31, 2018, respectively. Fluctuations in the size and timing of customers' requests for bid proposals and awards of new contracts tend to create variability in booking activity levels from period to period.

The timing of any change in activity levels by our customers is difficult to predict. As a result, our ability to project the anticipated activity level for our business, and particularly our product sales segment, is limited. Given the volatility of the global energy markets and industry capital spending activity levels, we plan to monitor and control our expense levels as necessary to protect our profitability. Additionally, volatility in commodity prices could delay investments by our customers in significant projects, which could result in a material adverse effect on our business, financial condition, results of operations and cash flows.

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Our level of capital spending largely depends on the demand for our contract operations services and the equipment required to provide such services to our customers. Based on demand we see for contract operations, we anticipate investing approximately the same level of capital in our contract operations business in 2019 as we did in 2018.

A decline in demand for oil and natural gas or prices for those commodities, or instability in the global energy markets could cause a reduction in demand for our products and services. 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.

## Operating Highlights

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

|                                   | March 31,<br>2019 | December 31,<br>2018 | March 31,<br>2018 |
|-----------------------------------|-------------------|----------------------|-------------------|
| Contract Operations Backlog:      |                   |                      |                   |
| Contract operations services      | \$1,357,411       | \$1,398,644          | \$1,215,877       |
| Product Sales Backlog:            |                   |                      |                   |
| Compression equipment             | \$367,226         | \$471,827            | \$206,252         |
| Processing and treating equipment | 161,206           | 229,258              | 199,122           |
| Production equipment              | —                 | 2,438                | 9,481             |
| Other product sales               | 25,059            | 2,246                | 12,041            |
| Total product sales backlog       | \$553,491         | \$705,769            | \$426,896         |

## Financial Results of Operations

## Summary of Results

## Revenue.

Revenue during the three months ended March 31, 2019 and 2018 was \$351.4 million and \$350.4 million, respectively. The increase in revenue during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was due to an increase in revenue in our product sales segment, partially offset by a decrease in revenue in our contract operations segment.

## Net income (loss).

We generated net loss of \$5.4 million and net income \$5.3 million during the three months ended March 31, 2019 and 2018, respectively. The decrease in net income during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to an increase in depreciation and amortization expense, an increase in income taxes and a decrease in gross margin for our contract operations segment, partially offset by a long-lived asset impairment in the prior year period and an increase in gross margin for our product sales segment.

## EBITDA, as adjusted.

Our EBITDA, as adjusted, was \$50.2 million and \$50.7 million during the three months ended March 31, 2019 and 2018, respectively. EBITDA, as adjusted, during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 decreased primarily due to a decrease in gross margin for our contract operations segment, partially offset by a decrease of foreign currency losses, excluding the remeasurement of intercompany balances, of \$1.6 million and an increase in gross margin for our product sales segment.

EBITDA, as adjusted, is a non-GAAP financial measure. For a reconciliation of EBITDA, as adjusted, to net income (loss), its most directly comparable financial measure calculated and presented in accordance with GAAP, please read “— Non-GAAP Financial Measures” included elsewhere in this Quarterly Report.

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## The Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018

Contract Operations  
(dollars in thousands)

|   | Three Months Ended<br>March 31, |          |            |             |
|---|---------------------------------|----------|------------|-------------|
|   | 2019                            | 2018     | Change     | %<br>Change |
| Revenue   | \$85,700                        | \$96,493 | \$(10,793) | (11)%       |
| Cost of sales (excluding depreciation and amortization expense) | 28,591                          | 35,385   | (6,794)    | (19)%       |
| Gross margin  | \$57,109                        | \$61,108 | \$(3,999)  | (7)%        |
| Gross margin percentage <sup>(1)</sup>                          | 67                              | % 63     | % 4        | % 6         |

(1) Defined as gross margin divided by revenue.

The decrease in revenue during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to decreases in revenue of \$8.2 million and \$3.9 million in the Latin America region and Asia Pacific region, respectively, partially offset by an increase in revenue of \$1.5 million in the Middle East and Africa region. The revenue decrease in the Latin America region was primarily driven by a decrease of \$5.3 million in Argentina largely resulting from the current year impact of the devaluation of the Argentine Peso during the second half of 2018 and a \$2.6 million decrease in Brazil primarily driven by projects that terminated in 2018 and 2019 and the impact of foreign currency exchange rates. The revenue decrease in the Asia Pacific region was primarily driven by a \$2.8 million recovery of an early termination fee in the first quarter of 2018 for a contract that terminated in January 2016. The revenue increase in the Middle East and Africa region was primarily due to the start-up of a project that was not operating in the prior year period. Gross margin decreased during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily due to the revenue decreases explained above. Gross margin percentage during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 increased primarily due to the devaluation of the Argentine Peso discussed above.

Aftermarket Services  
(dollars in thousands)

|   | Three Months Ended<br>March 31, |          |         |             |
|---|---------------------------------|----------|---------|-------------|
|   | 2019                            | 2018     | Change  | %<br>Change |
| Revenue   | \$27,302                        | \$26,371 | \$931   | 4%          |
| Cost of sales (excluding depreciation and amortization expense) | 20,718                          | 18,897   | 1,821   | 10%         |
| Gross margin  | \$6,584                         | \$7,474  | \$(890) | (12)%       |
| Gross margin percentage   | 24                              | % 28     | % (4)   | (14)%       |

The increase in revenue during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to increases in commissioning services, preventative maintenance services and part sales, offset by a decrease in operation and maintenance services. Gross margin and gross margin percentage decreased during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily due to a shift in services mix in the Latin America region.





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## Product Sales

(dollars in thousands)

|   | Three Months Ended<br>March 31, |           |          |             |
|---|---------------------------------|-----------|----------|-------------|
|   | 2019                            | 2018      | Change   | %<br>Change |
| Revenue   | \$238,444                       | \$227,519 | \$10,925 | 5 %         |
| Cost of sales (excluding depreciation and amortization expense) | 209,535                         | 200,336   | 9,199    | 5 %         |
| Gross margin  | \$28,909                        | \$27,183  | \$1,726  | 6 %         |
| Gross margin percentage   | 12                              | % 12      | % —      | % — %       |

The increase in revenue during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to an increase in revenue of \$54.5 million in the Middle East and Africa region, partially offset by decreases in revenue of \$32.3 million and \$11.9 million in the North America and Asia Pacific regions, respectively. The increase in revenue in the Middle East and Africa region was primarily due to an increase of \$54.6 million in processing and treating equipment revenue. The decrease in revenue in the North America region was primarily due to decreases of \$51.4 million and \$6.2 million in processing and treating equipment revenue and production equipment revenue, respectively, partially offset by an increase of \$25.4 million in compression equipment revenue. In June 2018, we completed the sale of our North America production equipment assets (“PEQ assets”). The decrease in revenue in the Asia Pacific region was primarily due to a decrease of \$11.2 million in compression equipment revenue. Gross margin increased during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to the revenue increase explained above. Gross margin percentage during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 remained flat.

## Costs and Expenses

(dollars in thousands)

|                                     | Three Months<br>Ended<br>March 31, |          |         |             |
|-------------------------------------|------------------------------------|----------|---------|-------------|
|                                     | 2019                               | 2018     | Change  | %<br>Change |
| Selling, general and administrative | \$43,452                           | \$44,242 | \$(790) | (2)%        |
| Depreciation and amortization       | 38,217                             | 31,029   | 7,188   | 23 %        |
| Long-lived asset impairment         | —                                  | 1,804    | (1,804) | (100)%      |
| Restatement related charges         | 48                                 | 621      | (573)   | (92)%       |
| Restructuring and other charges     | 384                                | —        | 384     | N/A         |
| Interest expense                    | 8,163                              | 7,219    | 944     | 13 %        |
| Other (income) expense, net         | (1,245)                            | 1,420    | (2,665) | (188)%      |

## Selling, general and administrative

SG&A expense remained relatively flat during the three months ended March 31, 2019 compared to the three months ended March 31, 2018. SG&A expense as a percentage of revenue was 12% and 13% during the three months ended March 31, 2019 and 2018, respectively.

## Depreciation and amortization

Depreciation and amortization expense during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 increased primarily due to an increase in depreciation expense of \$5.2 million in the current year period resulting from an amendment to a contract operations contract in the fourth quarter of 2018.

Long-lived asset impairment

In the fourth quarter of 2017, we classified certain PEQ assets primarily related to inventory and property, plant and equipment, net, within our product sales business as assets held for sale in our balance sheets. In June 2018, we completed the sale of our PEQ assets. During the three months ended March 31, 2018, we recorded an impairment of \$1.8 million to reduce these assets to their approximate fair values based on the expected net proceeds.

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## Restatement related charges

During the first quarter of 2016, our senior management identified errors relating to the application of percentage-of-completion accounting principles to specific Belleli EPC product sales projects. During the three months ended March 31, 2018, we incurred \$0.6 million of external costs associated with an SEC investigation and remediation activities related to the restatement of our financial statements.

## Restructuring and other charges

In the second quarter of 2018, we initiated a relocation plan in the North America region to better align our contract operations business with our customers. As a result of this plan, during the three months ended March 31, 2019, we incurred restructuring and other charges of \$0.4 million related to relocation costs.

## Interest expense

The increase in interest expense during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to a higher average balance of long-term debt, partially offset by a decrease in the effective interest rate on our debt. During the three months ended March 31, 2019 and 2018, the average daily outstanding borrowings of long-term debt were \$484.2 million and \$392.3 million, respectively.

## Other (income) expense, net

The change in other (income) expense, net, was primarily due to foreign currency gains, net of losses on foreign currency derivatives, of \$0.1 million during the three months ended March 31, 2019 compared to foreign currency losses of \$1.9 million during the three months ended March 31, 2018. Foreign currency gains and losses included translation gains, net of losses on foreign currency derivatives, of \$0.2 million and translation losses of \$0.6 million during the three months ended March 31, 2019 and 2018, respectively, related to the currency remeasurement of our foreign subsidiaries' non-functional currency denominated intercompany obligations. The change in other (income) expense, net, also included an increase of \$0.8 million in gains on sale of property, plant and equipment.

## Income Taxes

(dollars in thousands)

|                            | Three Months Ended March 31, |         |         |          |
|----------------------------|------------------------------|---------|---------|----------|
|                            | 2019                         | 2018    | Change  | % Change |
| Provision for income taxes | \$9,140                      | \$5,492 | \$3,648 | 66 %     |
| Effective tax rate         | 255.1 %                      | 58.2 %  | 196.9 % | 338 %    |

Our effective tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amounts of income we earn, or losses we incur, in those jurisdictions. It is also affected by discrete items that may occur in any given year but are not consistent from year to year. Our effective tax rate is also impacted by valuation allowances recorded against loss carryforwards in the U.S. and certain other jurisdictions, foreign withholding taxes and changes in foreign currency exchange rates.

The following items had the most significant impact on the difference between our statutory U.S. federal income tax rate of 21.0% and our effective tax rate for the quarter ended March 31, 2019: (i) a \$3.0 million negative impact resulting from the recording of valuation allowances recorded against U.S. federal net operating losses and (ii) a \$3.4 million negative impact resulting from foreign currency devaluations in Argentina. Our effective tax rate for the three months ended March 31, 2019 increased over the comparative period of March 31, 2018 primarily due to recording additional valuation allowance in the U.S. and additional tax related to foreign exchange movement in Argentina in

2019, and a valuation allowance release in Indonesia in the comparative period, partially offset by a decrease in foreign withholding tax.

Table of ContentsDiscontinued Operations  
(dollars in thousands)

|   | Three<br>Months<br>Ended<br>March 31, |          |           |             |
|---|---------------------------------------|----------|-----------|-------------|
|   | 2019                                  | 2018     | Change    | %<br>Change |
| Income from discontinued operations, net of tax | \$ 163                                | \$ 1,399 | \$(1,236) | (88 )%      |

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

Income from discontinued operations, net of tax, decreased primarily due to decreased activities resulting from our exit of Belleli EPC during the three months ended March 31, 2019 compared to the three months ended March 31, 2018. For further details on our discontinued operations, see Note 4 to the Financial Statements.

## Liquidity and Capital Resources

Our unrestricted cash balance was \$18.6 million at March 31, 2019, compared to \$19.3 million at December 31, 2018. Working capital increased to \$111.5 million at March 31, 2019 from \$108.7 million at December 31, 2018. The increase in working capital was primarily due to an increase in accounts receivables, an increase in inventory and a decrease in contract liabilities, partially offset by an increase in accounts payable and a decrease in contract assets. The increase in accounts receivable was mostly related to the timing of payments received from contract operations customers in the Latin America region during the current year period. The increase in inventory and decrease in contract assets were primarily driven by higher product sales activity in North America. The decrease in contract liabilities was primary due to the timing of payments received on a significant product sales contract in the Middle East and Africa region. The increase in accounts payable was largely caused by the timing of payments made to suppliers 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):

|   | Three Months<br>Ended<br>March 31, |            |
|---|------------------------------------|------------|
|   | 2019                               | 2018       |
| Net cash provided by (used in) continuing operations:                         |                                    |            |
| Operating activities  | \$49,025                           | \$3,626    |
| Investing activities  | (72,549 )                          | (46,959 )  |
| Financing activities  | 23,186                             | 14,878     |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (402 )                             | (571 )     |
| Discontinued operations   | 16                                 | (2,783 )   |
| Net change in cash, cash equivalents and restricted cash                      | \$(724 )                           | \$(31,809) |

Operating Activities. The increase in net cash provided by operating activities during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily attributable to better collections of in-period billings during the current year period and an increase in cash received from upfront billings on contract operations jobs. Working capital changes during the three months ended March 31, 2019 included an increase of

\$24.1 million in contract liabilities, an increase of \$19.4 million in inventory and an increase of \$16.7 million in accounts receivable. Working capital changes during the three months ended March 31, 2018 included an increase of \$34.3 million in inventory, an increase of \$31.4 million in contract assets and a decrease of \$20.8 million in accounts receivable.

**Investing Activities.** The increase in net cash used in investing activities during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily attributable to a \$27.1 million increase in capital expenditures. The increase in capital expenditures was primarily driven by an increase in growth capital expenditures on contract operations services contracts in the Latin America region.

**Financing Activities.** The increase in net cash provided by financing activities during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily attributable to an increase in net borrowings of \$12.0 million on our long-term debt, partially offset by an increase of \$3.3 million in purchases of treasury stock.

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

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

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

We generally invest funds necessary to manufacture contract operations fleet additions when our idle equipment cannot be reconfigured to economically fulfill a project’s requirements and the new equipment expenditure is expected to generate economic returns over its expected useful life that exceeds our targeted return on capital. We currently plan to spend approximately \$205 million to \$215 million in capital expenditures during 2019, including (1) approximately \$170 million on contract operations growth capital expenditures and (2) approximately \$35 million to \$45 million on equipment maintenance capital related to our contract operations business and other capital expenditures.

Long-Term Debt. We and our wholly owned subsidiary, Exterran Energy Solutions, L.P. (“EESLP”), are parties to an amended and restated credit agreement (the “Credit Agreement”) consisting of a \$700.0 million revolving credit facility expiring in October 2023.

During the three months ended March 31, 2019 and 2018, the average daily outstanding borrowings of long-term debt were \$484.2 million and \$392.3 million, respectively. The weighted average annual interest rate on outstanding borrowings under our revolving credit facility at March 31, 2019 and 2018 was 4.3% and 3.7%, respectively.

As of March 31, 2019, we had \$65.0 million in outstanding borrowings and \$55.4 million in outstanding letters of credit under our revolving credit facility. At March 31, 2019, taking into account guarantees through letters of credit, we had undrawn capacity of \$579.6 million under our revolving credit facility. Our Amended Credit Agreement limits our senior secured leverage ratio (as defined in the Amended Credit Agreement) on the last day of the fiscal quarter to no greater than 2.75 to 1.0. As a result of this limitation, \$547.6 million of the \$579.6 million of undrawn capacity under our revolving credit facility was available for additional borrowings as of March 31, 2019.

The Credit Agreement contains various covenants with which we, EESLP and our respective restricted subsidiaries must comply, including, but not limited to, limitations on the incurrence of indebtedness, investments, liens on assets, repurchasing equity, making distributions, transactions with affiliates, mergers, consolidations, dispositions of assets

and other provisions customary in similar types of agreements. We are required to maintain, on a consolidated basis, a minimum interest coverage ratio (as defined in the Credit Agreement) of 2.25 to 1.00; a maximum total leverage ratio (as defined in the Credit Agreement) of 4.50 to 1.00; and a maximum senior secured leverage ratio (as defined in the Credit Agreement) of 2.75 to 1.00. As of March 31, 2019, we maintained a 9.0 to 1.0 interest coverage ratio, a 1.9 to 1.0 total leverage ratio and a 0.3 to 1.0 senior secured leverage ratio. As of March 31, 2019, we were in compliance with all financial covenants under the Credit Agreement.

In April 2017, our 100% owned subsidiaries EESLP and EES Finance Corp. issued \$375.0 million aggregate principal amount of 8.125% senior unsecured notes due 2025 (the “2017 Notes”). The 2017 Notes are guaranteed by us on a senior unsecured basis. We may redeem the 2017 Notes at any time in cash, in whole or part, at certain redemption prices, including the applicable make-whole premium plus accrued and unpaid interest, if any, to the date of redemption.



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

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

Unrestricted Cash. Of our \$18.6 million unrestricted cash balance at March 31, 2019, \$17.7 million was held by our non-U.S. subsidiaries. In the event of a distribution of earnings to the U.S. in the form of dividends, we may be subject to foreign withholding taxes. We do not believe that the cash held by our non-U.S. subsidiaries has an adverse impact on our liquidity because we expect that the cash we generate in the U.S., the available borrowing capacity under our revolving credit facility and the repayment of intercompany liabilities from our non-U.S. subsidiaries will be sufficient to fund the cash needs of our U.S. operations for the foreseeable future.

Share Repurchase Program. On February 20, 2019, our board of directors approved a share repurchase program under which the Company is authorized to purchase up to \$100.0 million of its outstanding common stock through February 2022. The timing and method of any repurchases under the program will depend on a variety of factors, including prevailing market conditions among others. Purchases under the program may be suspended or discontinued at any time and we have no obligation to repurchase any amount of our common shares under the program. Shares of common stock acquired through the repurchase program are held in treasury at cost. During the three months ended March 31, 2019, we repurchased 268,500 shares of our common stock for \$4.7 million in connection with our share repurchase program. As of March 31, 2019, the remaining authorized repurchase amount under the share repurchase program was \$95.3 million.

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.

## Non-GAAP Financial Measures

We define EBITDA, as adjusted, as net income (loss) excluding income (loss) from discontinued operations (net of tax), cumulative effect of accounting changes (net of tax), income taxes, interest expense (including debt extinguishment costs), depreciation and amortization expense, impairment charges, restructuring and other charges, non-cash gains or losses from foreign currency exchange rate changes recorded on intercompany obligations, expensed acquisition costs and other items. We believe EBITDA, as adjusted, is an important measure of operating performance because it allows management, investors and others to evaluate and compare our core operating results from period to period by removing the impact of our capital structure (interest expense from our outstanding debt), asset base (depreciation and amortization), our subsidiaries' capital structure (non-cash gains or losses from foreign

currency exchange rate changes on intercompany obligations), tax consequences, impairment charges, restructuring and other charges, expensed acquisition costs and other items. Management uses EBITDA, as adjusted, as a supplemental measure to review current period operating performance, comparability measures and performance measures for period to period comparisons. In addition, the compensation committee has used EBITDA, as adjusted, in evaluating the performance of the Company and management and in evaluating certain components of executive compensation, including performance-based annual incentive programs. Our EBITDA, as adjusted, may not be comparable to a similarly titled measure of another company because other entities may not calculate EBITDA in the same manner.

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

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

|  | Three Months<br>Ended<br>March 31, |          |
|--|------------------------------------|----------|
|  | 2019                               | 2018     |
| Net income (loss)  | \$(5,394 )                         | \$5,337  |
| Income from discontinued operations, net of tax                              | (163 )                             | (1,399 ) |
| Depreciation and amortization  | 38,217                             | 31,029   |
| Long-lived asset impairment  | —                                  | 1,804    |
| Restatement related charges  | 48                                 | 621      |
| Restructuring and other charges  | 384                                | —        |
| Interest expense   | 8,163                              | 7,219    |
| (Gain) loss on currency exchange rate remeasurement of intercompany balances | (238 )                             | 630      |
| Provision for income taxes   | 9,140                              | 5,492    |
| EBITDA, as adjusted  | \$50,157                           | \$50,733 |

## Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

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

We are exposed to market risks associated with changes in foreign currency exchange rates due to our significant international operations. While the majority of our revenue contracts are denominated in the U.S. dollar, certain contracts or portions of certain contracts, most notably within our contract operations segment, are exposed to foreign currency fluctuations. Approximately 20% of revenues in our contract operations segment are denominated in a currency other than the U.S. dollar. The currencies for which we have our largest exchange rate exposures are related to changes in the Argentine Peso and the Brazilian Real. During the three months ended March 31, 2019, the Argentine Peso and Brazilian Real depreciated by approximately 12% and 1%, respectively. The impact of foreign currency risk on income for these contracts is generally mitigated by matching costs with revenues in the same currency.

Additionally, 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 \$0.7 million and foreign currency losses of \$1.9 million in our statements of operations during the three months ended March 31, 2019 and 2018, respectively. Our foreign currency gains and losses are primarily due to exchange rate fluctuations related to monetary asset balances denominated in currencies other than the functional currency, including foreign currency exchange rate changes recorded on intercompany obligations. Our material exchange rate exposure relates to intercompany loans to subsidiaries whose functional currency are the Brazilian Real and Canadian Dollar, which loans carried U.S. dollars balances of \$17.0 million and \$18.4 million, respectively, as of March 31, 2019. Foreign currency gains and losses included translation gains of \$0.4 million and translation losses of \$0.6 million during the three months ended March 31, 2019 and 2018, respectively, related to the functional currency remeasurement of our foreign subsidiaries' non-functional currency denominated intercompany obligations. During the three months ended March 31, 2019, we entered into forward currency exchange contracts to mitigate exposures in U.S. dollars related to the Argentine Peso, Brazilian Real and Indonesian Rupiah. As a result of entering into these contracts, we recognized losses of \$0.7 million during the three months ended March 31, 2019. Changes in exchange rates may create gains or losses in future periods to the extent we maintain net assets and liabilities not denominated in

the functional currency.

Item 4. Controls and Procedures

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

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Management's Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2019. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in reports that we file or submit under the Exchange Act is accumulated and communicated to management, and made known to our principal executive officer and principal financial officer, on a timely basis to ensure that it is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

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

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## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

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

Contemporaneously with filing the Form 8-K on April 26, 2016, we self-reported the errors and possible irregularities at Belleli EPC to the SEC. On April 8, 2019, the SEC provided written notice to us stating that based on the information they have as of this date, they have concluded their investigation and do not intend to recommend enforcement action by the SEC against us in connection with this matter.

## Item 1A. Risk Factors

There have been no material changes or updates to our risk factors that were previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

## 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 March 31, 2019:

| Period                               | Total Number of Shares Repurchased <sup>(1)</sup> | Average Price Paid Per Unit | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup> | Approximate Dollar Value of Shares yet to be Purchased Under the Publicly Announced Plans or Programs <sup>(2)</sup> |
|--------------------------------------|---|-----------------------------|---|--|
| January 1, 2019 - January 31, 2019   | —   | \$ —                        | N/A   | N/A  |
| February 1, 2019 - February 28, 2019 | 208   | 17.25                       | —   | \$ 100,000,000   |
| March 1, 2019 - March 31, 2019       | 142,653   | 17.01                       | 268,500   | 95,342,742   |
| Total                                | 142,861   | 17.01                       | 268,500   | 95,342,742   |

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

On February 20, 2019, our board of directors approved a share repurchase program, under which the Company is authorized to purchase up to \$100.0 million of its outstanding common stock through February 2022. The timing

<sup>(2)</sup>and method of any repurchases under the program will depend on a variety of factors, including prevailing market conditions among others. Purchases under the program may be suspended or discontinued at any time, and we have no obligation to repurchase any amount of our common shares under the program. Shares of common stock acquired through the repurchase program are held in treasury at cost.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

| Exhibit No. | Description   |
|-------------|---|
| 2.1         | <u>Separation and Distribution Agreement, dated as of November 3, 2015, by and among Exterran Holdings, Inc., Exterran General Holdings LLC, Exterran Energy Solutions, L.P., Exterran Corporation, AROC Corp., EESLP LP LLC, AROC Services GP LLC, AROC Services LP LLC and Archrock Services, L.P., incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on November 5, 2015</u>                       |
| 2.2         | <u>First Amendment to Separation and Distribution Agreement, dated as of December 15, 2015, by and among Archrock, Inc., Exterran General Holdings LLC, Exterran Energy Solutions, L.P., Exterran Corporation, AROC Corp., EESLP LP LLC, AROC Services GP LLC, AROC Services LP LLC and Archrock Services, L.P., incorporated by reference to Exhibit 2.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015</u> |
| 10.1†*      | <u>Form of Award Notice and Agreement for Performance Units pursuant to the 2015 Stock Incentive Plan</u>   |
| 10.2†**     | <u>Form of Award Notice and Agreement for Time-Vested Restricted Stock pursuant to the 2015 Stock Incentive Plan</u>  |
| 10.3†*      | <u>Form of Award Notice and Agreement for Time-Vested Restricted Stock Units pursuant to the 2015 Stock Incentive Plan</u>  |
| 10.4†*      | <u>Form of Award Notice and Agreement for Common Stock Award for Non-Employee Directors pursuant to the 2015 Stock Incentive Plan</u>   |
| 31.1*       | <u>Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   |
| 31.2*       | <u>Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   |
| 32.1**      | <u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>   |
| 32.2**      | <u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>   |
| 101.INS     | XBRL Instance Document.   |
| 101.SCH     | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL     | XBRL Extension Calculation Linkbase Document.   |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB     | XBRL Taxonomy Extension Labels Linkbase Document.   |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document.   |

† Management contract or compensatory plan or arrangement.

\* Filed herewith.

\*\* Furnished, not filed.



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SIGNATURES

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

Exterran Corporation

Date: May 2, 2019 By: /s/ DAVID A. BARTA

David A. Barta

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)