

Exterrann Corp
Form 10-Q
January 04, 2017

Table of Contents

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

Form 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2016

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 001-36875

EXTERRAN CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: Exterran Corp - Form 10-Q

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Number of shares of the common stock of the registrant outstanding as of December 28, 2016: 35,438,843 shares.

Table of Contents

TABLE OF CONTENTS

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EXTERRAN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value and share amounts)

(unaudited)

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

Edgar Filing: Exterran Corp - Form 10-Q

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

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

Table of Contents

EXTERRAN CORPORATION

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

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

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

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

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

Table of Contents

EXTERRAN CORPORATION

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(unaudited)

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

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

Table of Contents

EXTERRAN CORPORATION
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(unaudited)

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

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

Table of Contents

EXTERRAN CORPORATION
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

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

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

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

Table of Contents

EXTERRAN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. Description of Business, Spin-Off and Basis of Presentation

Description of Business

Exterran Corporation (together with its subsidiaries, “Exterran Corporation,” “our,” “we” or “us”), a Delaware corporation formed in March 2015, is a market leader in the provision of compression, production and processing products and services that support the production and transportation of oil and natural gas throughout the world. We provide these products and services to a global customer base consisting of companies engaged in all aspects of the oil and natural gas industry, including large integrated oil and natural gas companies, national oil and natural gas companies, independent oil and natural gas producers and oil and natural gas processors, gatherers and pipeline operators. We operate in four primary business lines: contract operations, aftermarket services, oil and gas product sales and Belleli EPC product sales.

Spin-off

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

Basis of Presentation

The accompanying unaudited condensed consolidated and combined financial statements of Exterran Corporation included herein have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP are not required in these interim financial statements and have been condensed or omitted. Management believes that the information furnished includes all adjustments, consisting only of normal recurring adjustments, that are necessary to present fairly our consolidated and combined financial position, results of operations and cash flows for the periods indicated. All financial information presented for periods after the Spin-off represents our consolidated results of operations, financial position and cash flows (referred to as the “condensed consolidated financial statements”) and all financial information for periods prior to the Spin-off represents our combined results of operations, financial

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

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

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

Table of Contents

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

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

The accompanying unaudited condensed consolidated and combined financial statements should be read in conjunction with the consolidated and combined financial statements presented in Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended December 31, 2015 (the "2015 Form 10-K/A"). That report contains a comprehensive summary of our accounting policies. The interim results reported herein are not necessarily indicative of results for a full year.

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

Recent Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). The update outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes the most current revenue recognition guidance, including industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The update also requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the guidance in determining revenue recognition as principal versus agent. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, which provides guidance in accounting for immaterial performance obligations and shipping and handling activities. In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which provides clarification on assessing the collectibility criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. The updates will be effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Early adoption is permitted for reporting periods beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt the updates. We are currently evaluating the potential impact of the updates on our financial statements.

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The update requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases. The update also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. Accounting by lessors will remain largely unchanged. This update is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective approach beginning with the earliest period presented. We are currently evaluating the potential impact of the update on our financial statements.

Table of Contents

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The update addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update will be effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Early adoption is permitted. We are currently evaluating the potential impact of the update on our financial statements.

2. Restatement of Previously Reported Consolidated and Combined Financial Statements

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

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

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

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

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

Table of Contents

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

Contemporaneously with filing the Form 8-K on April 26, 2016, we self-reported the errors and possible irregularities at Belleli EPC to the SEC. Since then, we have been cooperating with the SEC in its investigation of this matter, including responding to a subpoena for documents related to the restatement and compliance with the U.S. Foreign Corrupt Practices Act (“FCPA”), which are also being provided to the Department of Justice at its request. The FCPA related requests in the SEC subpoena pertain to our policies and procedures, information about our third-party sales agents, and documents related to historical internal investigations completed prior to November 2015.

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

Table of Contents

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

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

Edgar Filing: Exterran Corp - Form 10-Q

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

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

Table of Contents

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

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

Edgar Filing: Exterran Corp - Form 10-Q

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

Basic net income per common share:

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

Diluted net income per common share:

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

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

Table of Contents

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

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

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

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

Table of Contents

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

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

Edgar Filing: Exterran Corp - Form 10-Q

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

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

Table of Contents

3. Discontinued Operations

In August 2012, our Venezuelan subsidiary sold its previously nationalized assets to PDVSA Gas, S.A. (“PDVSA Gas”) for a purchase price of approximately \$441.7 million. We received installment payments, including an annual charge, totaling \$19.5 million and \$18.9 million during the three months ended September 30, 2016 and 2015, respectively, and \$38.8 million and \$37.6 million during the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, the remaining principal amount due to us was approximately \$33 million. We have not recognized amounts payable to us by PDVSA Gas as a receivable and will therefore recognize payments received in the f