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, 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)

Not Applicable
(Former name or former address, if changed since last report)

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 ☐

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 October 30, 2019: 33,495,520 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)

	September 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,979	$ 19,300
Restricted cash	19	178
Accounts receivable, net of allowance of $5,305 and $5,474, respectively	231,220	248,467
Inventory, net (Note 5)	170,399	150,689
Contract assets (Note 2)	37,207	91,602
Other current assets	25,882	44,234
Current assets associated with discontinued operations (Note 4)	4,028	11,605
Total current assets	490,734	566,075
Property, plant and equipment, net (Note 6)	931,603	901,577
Operating lease right-of-use assets (Note 3)	29,293	—
Deferred income taxes	10,314	11,370
Intangible and other assets, net	85,671	86,371
Long-term assets held for sale (Note 7)	2,142	—
Long-term assets associated with discontinued operations (Note 4)	2,979	1,661
Total assets	$ 1,552,736	$ 1,567,054
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 90,975	$ 165,744
Accrued liabilities	111,864	123,335
Contract liabilities (Note 2)	105,788	153,483
Current operating lease liabilities (Note 3)	6,547	—
Current liabilities associated with discontinued operations (Note 4)	9,803	14,767
Total current liabilities	324,977	457,329
Long-term debt (Note 8)	495,347	403,810
Deferred income taxes	1,869	6,005
Long-term contract liabilities (Note 2)	165,188	101,363
Long-term operating lease liabilities (Note 3)	30,256	—
Other long-term liabilities	45,383	39,812
Long-term liabilities associated with discontinued operations (Note 4)	617	5,914
Total liabilities	1,063,637	1,014,233
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 50,000,000 shares authorized; zero issued	—	—
Common stock, $0.01 par value per share; 250,000,000 shares authorized; 37,498,361 and 36,868,066 shares issued, respectively	375	369
Additional paid-in capital	745,229	734,458
Accumulated deficit	(237,401)	(208,677)
Treasury stock — 3,997,484 and 721,280 common shares, at cost, respectively	(53,156)	(11,560)
Accumulated other comprehensive income	34,052	38,231
Total stockholders' equity (Note 13)	489,099	552,821
Total liabilities and stockholders' equity	$ 1,552,736	$ 1,567,054

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues (Note 2):				
Contract operations	$ 96,261	$ 84,828	$ 271,645	$ 272,808
Aftermarket services	34,893	29,993	92,308	88,631
Product sales	171,277	220,028	680,798	667,264
	302,431	334,849	1,044,751	1,028,703
Costs and expenses:				
Cost of sales (excluding depreciation and amortization expense):				
Contract operations	34,356	27,768	93,283	95,525
Aftermarket services	26,079	22,138	67,814	64,741
Product sales	153,011	188,206	603,152	580,304
Selling, general and administrative	37,702	45,103	126,790	133,727
Depreciation and amortization	42,133	31,108	116,669	92,321
Long-lived asset impairment (Note 10)	2,970	2,054	8,889	3,858
Restatement related charges (recoveries), net	—	(342)	20	(318)
Restructuring and other charges (Note 11)	1,794	264	7,966	1,686
Interest expense	10,103	7,685	28,194	21,787
Other (income) expense, net	2,101	(285)	379	6,339
	310,249	323,699	1,053,156	999,970
Income (loss) before income taxes	(7,818)	11,150	(8,405)	28,733
Provision for income taxes (Note 12)	477	7,954	20,209	23,068
Income (loss) from continuing operations	(8,295)	3,196	(28,614)	5,665
Income (loss) from discontinued operations, net of tax (Note 4)	(1,546)	2,173	6,074	5,116
Net income (loss)	$ (9,841)	$ 5,369	$ (22,540)	$ 10,781
Basic net income (loss) per common share (Note 15):				
Income (loss) from continuing operations per common share	$ (0.25)	$ 0.09	$ (0.82)	$ 0.16
Income (loss) from discontinued operations per common share	(0.04)	0.06	0.17	0.14
Net income (loss) per common share	$ (0.29)	$ 0.15	$ (0.65)	$ 0.30
Diluted net income (loss) per common share (Note 15):				
Income (loss) from continuing operations per common share	$ (0.25)	$ 0.09	$ (0.82)	$ 0.16
Income (loss) from discontinued operations per common share	(0.04)	0.06	0.17	0.14
Net income (loss) per common share	$ (0.29)	$ 0.15	$ (0.65)	$ 0.30
Weighted average common shares outstanding used in net income (loss) per common share (Note 15):				
Basic	33,783	35,480	34,839	35,402
Diluted	33,783	35,544	34,839	35,469

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	$ (9,841)	$ 5,369	$ (22,540)	$ 10,781
Other comprehensive loss:				
Foreign currency translation adjustment	(3,631)	(2,673)	(4,179)	(10,039)
Comprehensive income (loss)	$ (13,472)	$ 2,696	$ (26,719)	$ 742

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

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

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2018	$ 362	$ 739,164	$ (223,510)	$ (6,937)	$ 45,707	$ 554,786
Cumulative-effect adjustment from adoption 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
Net income			75			75
Options exercised		135				135
Foreign currency translation adjustment					(8,123)	(8,123)
Treasury stock purchased				(41)		(41)
Stock-based compensation, net of forfeitures		3,454				3,454
Balance, June 30, 2018	$ 367	$ 746,780	$ (228,119)	$ (10,418)	$ 38,341	$ 546,951
Net income			5,369			5,369
Options exercised		(15)				(15)
Foreign currency translation adjustment					(2,673)	(2,673)
Treasury stock purchased				(299)		(299)
Stock-based compensation, net of forfeitures	1	3,772				3,773
Balance, September 30, 2018	$ 368	$ 750,537	$ (222,750)	$ (10,717)	$ 35,668	$ 553,106
Balance, January 1, 2019	$ 369	$ 734,458	$ (208,677)	$ (11,560)	$ 38,231	$ 552,821
Cumulative-effect adjustment from adoption 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
Net loss			(7,305)			(7,305)
Foreign currency translation adjustment					420	420
Transfers from Archrock, Inc.		420				420
Treasury stock purchased				(14,224)		(14,224)
Stock-based compensation, net of forfeitures		3,487				3,487
Balance, June 30, 2019	$ 375	$ 742,355	$ (227,560)	$ (32,871)	$ 37,683	$ 519,982
Net loss			(9,841)			(9,841)
Foreign currency translation adjustment					(3,631)	(3,631)
Treasury stock purchased				(20,285)		(20,285)
Stock-based compensation, net of forfeitures		2,874				2,874
Balance, September 30, 2019	$ 375	$ 745,229	$ (237,401)	$ (53,156)	$ 34,052	$ 489,099

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

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income (loss)	$ (22,540)	$ 10,781
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	116,669	92,321
Long-lived asset impairment	8,889	3,858
Amortization of deferred financing costs	1,884	2,014
Income from discontinued operations, net of tax	(6,074)	(5,116)
Provision for doubtful accounts	—	658
Gain on sale of property, plant and equipment	(1,361)	(345)
(Gain) loss on remeasurement of intercompany balances	(153)	4,245
Loss on foreign currency derivatives	794	—
Loss on sale of business	—	1,714
Stock-based compensation expense	10,357	10,831
Deferred income tax benefit	(5,812)	(4,727)
Changes in assets and liabilities:		
Accounts receivable and notes	20,582	14,126
Inventory	(24,086)	(51,067)
Contract assets	49,290	(16,263)
Other current assets	16,537	5,073
Accounts payable and other liabilities	(63,268)	29,116
Contract liabilities	24,072	(11,937)
Other	(4,785)	3,511
Net cash provided by continuing operations	120,995	88,793
Net cash provided by discontinued operations	1,967	1,144
Net cash provided by operating activities	122,962	89,937
Cash flows from investing activities:		
Capital expenditures	(172,118)	(152,226)
Proceeds from sale of property, plant and equipment	4,282	2,430
Settlement of foreign currency derivatives	(794)	—
Proceeds from sale of business	—	5,000
Net cash used in continuing operations	(168,630)	(144,796)
Net cash provided by discontinued operations	—	66
Net cash used in investing activities	(168,630)	(144,730)
Cash flows from financing activities:		
Proceeds from borrowings of debt	530,000	415,000
Repayments of debt	(439,338)	(365,371)
Transfer from Archrock, Inc.	420	—
Payments for debt issuance costs	—	(92)
Proceeds from stock options exercised	—	548
Purchases of treasury stock (Note 13)	(41,596)	(3,780)
Net cash provided by financing activities	49,486	46,305
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,298)	(3,691)
Net increase (decrease) in cash, cash equivalents and restricted cash	2,520	(12,179)
Cash, cash equivalents and restricted cash at beginning of period	19,478	49,691
Cash, cash equivalents and restricted cash at end of period	$ 21,998	$ 37,512

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

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," "the Company," "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.

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 are now 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**
ASSETS			
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
LIABILITIES AND STOCKHOLDERS' EQUITY			
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.

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 and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenue by Products and Services	**2019**	**2018**	**2019**	**2018**
Contract Operations Segment:				
Contract operations services [1]	$ 96,261	$ 84,828	$ 271,645	$ 272,808
Aftermarket Services Segment:				
Operation and maintenance services [1]	$ 14,069	$ 14,215	$ 40,844	$ 42,812
Part sales [2]	10,208	11,301	32,197	31,511
Other services [1]	10,616	4,477	19,267	14,308
Total aftermarket services	$ 34,893	$ 29,993	$ 92,308	$ 88,631
Product Sales Segment:				
Compression equipment [1]	$ 121,245	$ 106,140	$ 436,947	$ 367,135
Processing and treating equipment [1]	47,843	104,739	236,926	270,261
Production equipment [2]	—	1,084	2,458	15,864
Other product sales [1] [2]	2,189	8,065	4,467	14,004
Total product sales revenues	$ 171,277	$ 220,028	$ 680,798	$ 667,264
Total revenues	$ 302,431	$ 334,849	$ 1,044,751	$ 1,028,703

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenue by Geographical Regions	**2019**	**2018**	**2019**	**2018**
North America	$ 157,010	$ 215,015	$ 577,405	$ 669,220
Latin America	67,406	64,960	185,415	205,549
Middle East and Africa	66,601	41,653	249,861	99,131
Asia Pacific	11,414	13,221	32,070	54,803
Total revenues	$ 302,431	$ 334,849	$ 1,044,751	$ 1,028,703

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 September 30, 2019 (in thousands):

	Contract Operations Segment	Product Sales Segment
Remainder of 2019	$ 91,930	$ 137,302
2020	210,164	164,101
2021	198,640	7,091
2022	157,871	—
2023	139,920	—
Thereafter	411,662	—
Total backlog	$ 1,210,187	$ 308,494

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):

	September 30, 2019	December 31, 2018
Accounts receivables, net	$ 231,220	$ 248,467
Contract assets and contract liabilities:		
Current contract assets	37,207	91,602
Long-term contract assets	5,396	5,430
Current contract liabilities	105,788	153,483
Long-term contract liabilities	165,188	101,363

During the nine months ended September 30, 2019, revenue recognized from contract operations services included $17.0 million of revenue deferred in previous periods. Revenue recognized during the nine months ended September 30, 2019 from product sales performance obligations partially satisfied in previous periods was $515.6 million, of which $102.8 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 nine months ended September 30, 2019 were primarily driven by the 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 nine months ended September 30, 2019 was primarily driven by advanced billings to contract operations customers in the Latin America region.

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 components 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 and nine months ended September 30, 2019, we recorded expenses of $1.7 million and $6.0 million for our operating leases, respectively, of which $0.1 million and $0.4 million of expenses related to operating leases with initial terms of 12 months or less, respectively. 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 September 30, 2019, the weighted average remaining lease term and weighted average discount rate applied for our operating leases were nine years and 7%, respectively.

As of September 30, 2019, our lease assets and lease liabilities consisted of the following (in thousands):

Leases	Classification	September 30, 2019
Assets		
Operating lease assets	Operating lease right-of-use assets	$ 29,293
Liabilities		
Operating - current	Current operating lease liabilities	$ 6,547
Operating - noncurrent	Long-term operating lease liabilities	30,256
Total lease liabilities		$ 36,803

As of September 30, 2019, maturities of our operating lease liabilities consisted of the following (in thousands):

Maturity of Operating Lease Liabilities	September 30, 2019
Remainder of 2019 (1)	$ (39)
2020	7,768
2021	6,729
2022	5,774
2023	5,039
Thereafter	26,268
Total lease payments	51,539
Less: Imputed interest	(14,736)
Present value of lease liabilities	$ 36,803

(1) Includes lease incentives of $1.9 million expected to be received in the fourth quarter of 2019.

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, 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 nine months ended September 30, 2019 (in thousands):

Cash Flow Information	Classification	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities	Net cash provided by operating activities	$ (137)
Leased assets obtained in exchange for new operating lease liabilities	Non-cash	297

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 Ended September 30, 2019			Three Months Ended September 30, 2018		
	Venezuela	Belleli EPC	Total	Venezuela	Belleli EPC	Total
Revenue	$ —	$ 31	$ 31	$ —	$ 7,654	$ 7,654
Cost of sales (excluding depreciation and amortization expense)	—	1,204	1,204	—	3,587	3,587
Selling, general and administrative	114	231	345	35	742	777
Other (income) expense, net	—	28	28	—	537	537
Provision for income taxes	—	—	—	—	580	580
Income (loss) from discontinued operations, net of tax	$ (114)	$ (1,432)	$ (1,546)	$ (35)	$ 2,208	$ 2,173

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Venezuela	Belleli EPC	Total	Venezuela	Belleli EPC	Total
Revenue	$ —	$ 265	$ 265	$ —	$ 15,536	$ 15,536
Cost of sales (excluding depreciation and amortization expense)	—	(395)	(395)	—	8,798	8,798
Selling, general and administrative	182	921	1,103	96	929	1,025
Depreciation and amortization	—	—	—	—	480	480
Other (income) expense, net	—	(304)	(304)	1	(553)	(552)
Provision for (benefit from) income taxes	—	(6,213)	(6,213)	—	669	669
Income (loss) from discontinued operations, net of tax	$ (182)	$ 6,256	$ 6,074	$ (97)	$ 5,213	$ 5,116

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

	September 30, 2019			December 31, 2018		
	Venezuela	Belleli EPC	Total	Venezuela	Belleli EPC	Total
Cash	$ —	$ —	$ —	$ 3	$ —	$ 3
Accounts receivable	—	3,720	3,720	—	11,509	11,509
Contract assets	—	308	308	—	—	—
Other current assets	—	—	—	7	86	93
Total current assets associated with discontinued operations	—	4,028	4,028	10	11,595	11,605
Property, plant and equipment, net	—	—	—	—	28	28
Intangible and other assets, net	—	2,979	2,979	—	1,633	1,633
Total assets associated with discontinued operations	$ —	$ 7,007	$ 7,007	$ 10	$ 13,256	$ 13,266
Accounts payable	$ —	$ 1,449	$ 1,449	$ —	$ 4,382	$ 4,382
Accrued liabilities	108	5,710	5,818	12	7,831	7,843
Contract liabilities	—	2,536	2,536	—	2,542	2,542
Total current liabilities associated with discontinued operations	108	9,695	9,803	12	14,755	14,767
Other long-term liabilities	—	617	617	—	5,914	5,914
Total liabilities associated with discontinued operations	$ 108	$ 10,312	$ 10,420	$ 12	$ 20,669	$ 20,681

Note 5 - Inventory, Net

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

	September 30, 2019	December 31, 2018
Parts and supplies	$ 111,372	$ 92,016
Work in progress	51,033	49,547
Finished goods	7,994	9,126
Inventory, net	$ 170,399	$ 150,689

Note 6 - Property, Plant and Equipment, Net

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

	September 30, 2019	December 31, 2018
Compression equipment, processing facilities and other fleet assets	$ 1,806,860	$ 1,713,153
Land and buildings	106,849	101,571
Transportation and shop equipment	78,627	82,960
Computer software	58,401	54,572
Other	41,235	47,210
	2,091,972	1,999,466
Accumulated depreciation	(1,160,369)	(1,097,889)
Property, plant and equipment, net	$ 931,603	$ 901,577

Note 7 - Assets Held for Sale

In the second quarter of 2019, we classified certain long-lived assets as assets held for sale in our balance sheets. In conjunction with the planned disposition of these units, during the three and nine months ended September 30, 2019, we recorded impairment charges of $3.0 million and $8.9 million, respectively, to reduce these assets to their approximate fair values based on the expected net proceeds. The impairment charges are reflected in long-lived asset impairment in our statements of operations. As of September 30, 2019, the fair value of these long-lived assets after impairment was $2.1 million.

Note 8 - Debt

Debt consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Revolving credit facility due October 2023	$ 126,000	$ 35,000
8.125% senior notes due May 2025	375,000	375,000
Other debt	350	687
Unamortized deferred financing costs of 8.125% senior notes	(5,667)	(6,428)
Total debt	495,683	404,259
Less: Amounts due within one year [1]	(336)	(449)
Long-term debt	$ 495,347	$ 403,810

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[1] Short-term debt and the current portion of long-term debt are included in accrued liabilities in our balance sheets.

Revolving Credit Facility Due October 2023

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 September 30, 2019, we had $126.0 million in outstanding borrowings and $23.0 million in outstanding letters of credit under our revolving credit facility. At September 30, 2019, taking into account guarantees through letters of credit, we had undrawn capacity of $551.0 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, $472.9 million of the $551.0 million of undrawn capacity under our revolving credit facility was available for additional borrowings as of September 30, 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”). We guarantee the 2017 Notes 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 9 - Fair Value Measurements

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

Nonrecurring Fair Value Measurements

The following table presents our assets and liabilities measured at fair value on a nonrecurring basis during the nine months ended September 30, 2019 and 2018, with pricing levels as of the date of valuation (in thousands):

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	(Level 1)	(Level 2)	(Level 3)	(Level 1)	(Level 2)	(Level 3)
Impaired long-lived assets (1)	$ —	$ —	$ —	$ —	$ —	$ 550
Impaired assets—assets held for sale (2) (3)	—	—	2,142	—	—	21,026
Long-term note receivable (4)	—	—	15,104	—	—	14,573

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(1) Our estimate of the fair value of the impaired long-lived assets during the nine months ended September 30, 2018 was primarily based on the expected net sale proceeds compared to other fleet units we sold and/or a review of other units offered for sale by third parties.

(2) Our estimate of the fair value of the impaired assets, which were classified as held for sale as of September 30, 2019, was based on the expected net proceeds from the sale of the assets.

(3) Our estimate of the fair value of the impaired North America production equipment assets (“PEQ assets”), which 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.

(4) Our estimate of the fair value of a note receivable was discounted based on a settlement period of eight years and a discount rate of 5.2%

Financial Instruments

Our financial instruments consists of cash, restricted cash, receivables, payables and debt. At September 30, 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 September 30, 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 $374.0 million and $362.0 million, respectively. Due to the variable rate nature of our revolving credit facility, the carrying value as of September 30, 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 10 - Long-Lived Asset Impairment

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

In the second quarter of 2019, we classified certain long-lived assets as assets held for sale in our balance sheets. As described in Note 7, in conjunction with the planned disposition of these units, we recorded impairment charges of $3.0 million and $8.9 million to write-down these assets to their approximate fair values during the three and nine months ended September 30, 2019 based on the expected net proceeds, respectively.

During the third quarter of 2018, we evaluated idle units that had been previously culled from our fleet and were available for sale for impairment. Based upon that review, we reduced the expected proceeds from disposition for certain units. This resulted in an additional impairment of $2.1 million to reduce the book value of each unit to its estimated fair value during the three and nine months ended September 30, 2018. The fair value of each unit was estimated based on the expected net sale proceeds compared to other fleet units we recently sold and/or a review of other units recently offered for sale by third parties.

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 nine months ended September 30, 2018, we recorded an impairment of $1.8 million to reduce these assets to their approximate fair values based on the expected net proceeds.

Note 11 - Restructuring and Other Charges

The energy industry’s focus on capital discipline and improving returns has caused delays in the timing of new equipment orders. As a result, in the second quarter of 2019, we began the consolidation of two of our manufacturing facilities located in Houston, Texas into one facility and announced a cost reduction plan primarily focused on workforce reductions. We incurred restructuring and other charges associated with these activities of $1.8 million and $7.7 million for the three and nine months ended September 30, 2019, respectively. These charges are reflected as restructuring and other charges in our statements of operations and accrued liabilities on our balance sheets. We expect to settle these charges within the next twelve months in cash.

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 nine months ended September 30, 2019, we incurred restructuring and other charges of $0.2 million related to relocation costs. During the three and nine months ended September 30, 2018, we incurred restructuring and other charges of $0.3 million and $1.7 million, respectively, primarily related to employee termination benefits. The charges incurred in conjunction with this relocation plan are included in restructuring and other charges in our statements of operations. In the second quarter of 2019, we completed restructuring activities related to the relocation plan.

The following table summarizes the changes to our accrued liability balance related to restructuring and other charges for the nine months ended September 30, 2019 (in thousands):

	Cost Reduction Plan	Relocation Plan	Total
Beginning balance at January 1, 2018	$ —	$ —	$ —
Additions for costs expensed	—	1,422	1,422
Reductions for payments	—	(409)	(409)
Ending balance at September 30, 2018	$ —	$ 1,013	$ 1,013
Beginning balance at January 1, 2019	$ —	$ 309	$ 309
Additions for costs expensed, net	7,673	293	7,966
Reductions for payments	(3,633)	(602)	(4,235)
Ending balance at September 30, 2019	$ 4,040	$ —	$ 4,040

The following table summarizes the components of charges included in restructuring and other charges in our statements of operations for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Employee termination benefits	$ 1,549	$ 33	$ 7,477	$ 1,389
Relocation costs	245	231	489	297
Total restructuring and other charges	$ 1,794	$ 264	$ 7,966	$ 1,686

Note 12 - 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 affected 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 of (6.1)% for the three months ended September 30, 2019: (i) a $0.8 million favorable impact resulting primarily from rate differences between U.S. and foreign jurisdictions including foreign withholding taxes, (ii) a $0.6 million negative impact resulting from foreign currency devaluations in Argentina, and (iii) a $2.5 million negative impact resulting from the recording of valuation allowances recorded against U.S. deferred tax assets.

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 of (240.4)% for the nine months ended September 30, 2019: (i) a $6.6 million negative impact resulting primarily from rate differences between U.S. and foreign jurisdictions including foreign withholding taxes, (ii) a $7.4 million negative impact resulting from foreign currency devaluations in Argentina, and (iii) a $7.3 million negative impact resulting from the recording of valuation allowances recorded against U.S. deferred tax assets.

Our effective tax rate decreased for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 primarily due to a decrease in income before income taxes, an increase in valuation allowances recorded in the U.S., a decrease in foreign withholding tax and a decrease in tax related to foreign exchange movement in Argentina in 2019.

During the nine months ended September 30, 2019, we recorded a $6.5 million tax benefit (recognized in income from discontinued operations, net of tax), related to a settlement of Italian tax litigation previously recorded as an unrecognized tax benefit.

Note 13 - 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 nine months ended September 30, 2019, we repurchased 3,054,338 shares of our common stock for $38.9 million in connection with our share repurchase program. As of September 30, 2019, the remaining authorized repurchase amount under the share repurchase program was $61.1 million. Additionally, treasury stock purchased during the nine months ended September 30, 2019 and 2018 included shares withheld to satisfy employees’ tax withholding obligations in connection with vesting of restricted stock awards.

Note 14 - Stock-Based Compensation

Stock Options

There were no stock options granted during the nine months ended September 30, 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 nine months ended September 30, 2019.

	Shares (in thousands)	Weighted Average Grant-Date Fair Value Per Share
Non-vested awards, January 1, 2019	1,044	$ 25.89
Granted	826	16.90
Vested	(502)	23.20
Cancelled	(128)	22.05
Non-vested awards, September 30, 2019 [(1)]	1,240	21.39

(1) As of September 30, 2019, 329,000 of the non-vested awards are presented within our balance sheets as liabilities due to their expected cash settlement.

As of September 30, 2019, we estimate $15.2 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 1.6 years.

Note 15 - 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.

The following table presents a reconciliation of basic and diluted net income (loss) per common share for the three and nine months ended September 30, 2019 and 2018 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator for basic and diluted net income (loss) per common share:				
Income (loss) from continuing operations	$ (8,295)	$ 3,196	$ (28,614)	$ 5,665
Income (loss) from discontinued operations, net of tax	(1,546)	2,173	6,074	5,116
Less: Net income attributable to participating securities	—	(140)	—	(284)
Net income (loss) — used in basic and diluted net income (loss) per common share	$ (9,841)	$ 5,229	$ (22,540)	$ 10,497
Weighted average common shares outstanding including participating securities	34,523	36,430	35,623	36,361
Less: Weighted average participating securities outstanding	(740)	(950)	(784)	(959)
Weighted average common shares outstanding — used in basic net income (loss) per common share	33,783	35,480	34,839	35,402
Net dilutive potential common shares issuable:				
On exercise of options and vesting of restricted stock units	*	64	*	67
Weighted average common shares outstanding — used in diluted net income (loss) per common share	33,783	35,544	34,839	35,469
Net income (loss) per common share:				
Basic	$ (0.29)	$ 0.15	$ (0.65)	$ 0.30
Diluted	$ (0.29)	$ 0.15	$ (0.65)	$ 0.30

* 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 and nine months ended September 30, 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 Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net dilutive potential common shares issuable:				
On exercise of options where exercise price is greater than average market value	69	35	70	35
Net dilutive potential common shares issuable	69	35	70	35

Note 16 - 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 September 30, 2019 and December 31, 2018, we had accrued $5.1 million 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.

Note 17 - 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 and nine months ended September 30, 2019 and 2018 (in thousands):

Three Months Ended	Contract Operations	Aftermarket Services	Product Sales	Reportable Segments Total
September 30, 2019:				
Revenue	$ 96,261	$ 34,893	$ 171,277	$ 302,431
Gross margin (1)	61,905	8,814	18,266	88,985
September 30, 2018:				
Revenue	$ 84,828	$ 29,993	$ 220,028	$ 334,849
Gross margin (1)	57,060	7,855	31,822	96,737

Nine Months Ended	Contract Operations	Aftermarket Services	Product Sales	Reportable Segments Total
September 30, 2019:				
Revenue	$ 271,645	$ 92,308	$ 680,798	$ 1,044,751
Gross margin (1)	178,362	24,494	77,646	280,502
September 30, 2018:				
Revenue	$ 272,808	$ 88,631	$ 667,264	$ 1,028,703
Gross margin (1)	177,283	23,890	86,960	288,133

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Income (loss) before income taxes	$ (7,818)	$ 11,150	$ (8,405)	$ 28,733
Selling, general and administrative	37,702	45,103	126,790	133,727
Depreciation and amortization	42,133	31,108	116,669	92,321
Long-lived asset impairment	2,970	2,054	8,889	3,858
Restatement related charges (recoveries), net	—	(342)	20	(318)
Restructuring and other charges	1,794	264	7,966	1,686
Interest expense	10,103	7,685	28,194	21,787
Other (income) expense, net	2,101	(285)	379	6,339
Total gross margin	$ 88,985	$ 96,737	$ 280,502	$ 288,133

Note 18 - 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.

Condensed Consolidating Balance Sheet
September 30, 2019
(In thousands)

	Parent Guarantor	Issuers	Non- Guarantor Subsidiaries	Eliminations	Consolidation
ASSETS					
Cash and cash equivalents	$ 57	$ 905	$ 21,017	$ —	$ 21,979
Restricted cash	—	—	19	—	19
Accounts receivable, net	—	61,031	170,189	—	231,220
Inventory, net	—	98,056	72,343	—	170,399
Contract assets	—	12,479	24,728	—	37,207
Intercompany receivables	—	248,420	389,860	(638,280)	—
Other current assets	—	10,142	15,740	—	25,882
Current assets associated with discontinued operations	—	—	4,028	—	4,028
Total current assets	57	431,033	697,924	(638,280)	490,734
Property, plant and equipment, net	—	250,813	680,790	—	931,603
Operating lease right-of-use assets	—	11,677	17,616	—	29,293
Investment in affiliates	528,740	900,022	(371,282)	(1,057,480)	—
Deferred income taxes	—	3,343	6,971	—	10,314
Intangible and other assets, net	—	30,817	54,854	—	85,671
Long-term assets held for sale	—	2,142	—	—	2,142
Long-term assets associated with discontinued operations	—	—	2,979	—	2,979
Total assets	$ 528,797	$ 1,629,847	$ 1,089,852	$ (1,695,760)	$ 1,552,736
LIABILITIES AND EQUITY					
Accounts payable, trade	$ —	$ 61,419	$ 29,556	$ —	$ 90,975
Accrued liabilities	—	38,831	73,033	—	111,864
Contract liabilities	—	61,861	43,927	—	105,788
Current operating lease liabilities	—	1,922	4,625	—	6,547
Intercompany payables	39,698	389,860	208,722	(638,280)	—
Current liabilities associated with discontinued operations	—	—	9,803	—	9,803
Total current liabilities	39,698	553,893	369,666	(638,280)	324,977
Long-term debt	—	495,347	—	—	495,347
Deferred income taxes	—	—	1,869	—	1,869
Long-term contract liabilities	—	21,957	143,231	—	165,188
Long-term operating lease liabilities	—	18,128	12,128	—	30,256
Other long-term liabilities	—	11,782	33,601	—	45,383
Long-term liabilities associated with discontinued operations	—	—	617	—	617
Total liabilities	39,698	1,101,107	561,112	(638,280)	1,063,637
Total equity	489,099	528,740	528,740	(1,057,480)	489,099
Total liabilities and equity	$ 528,797	$ 1,629,847	$ 1,089,852	$ (1,695,760)	$ 1,552,736

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

	Parent Guarantor	Issuers	Non- Guarantor Subsidiaries	Eliminations	Consolidation
ASSETS					
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
LIABILITIES AND EQUITY					
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

Condensed Consolidating Statement of Operations and Comprehensive Loss
Three Months Ended September 30, 2019
(In thousands)

	Parent Guarantor	Issuers	Non- Guarantor Subsidiaries	Eliminations	Consolidation
Revenues	$ —	$ 163,061	$ 158,436	$ (19,066)	$ 302,431
Cost of sales (excluding depreciation and amortization expense)	—	139,270	93,242	(19,066)	213,446
Selling, general and administrative	344	19,201	18,157	—	37,702
Depreciation and amortization	—	14,286	27,847	—	42,133
Long-lived asset impairment	—	2,970	—	—	2,970
Restructuring and other charges	—	956	838	—	1,794
Interest expense	—	10,024	79	—	10,103
Intercompany charges, net	—	(361)	361	—	—
Equity in (income) loss of affiliates	9,497	(104,869)	115,002	(19,630)	—
Other (income) expense, net	—	91,950	(89,849)	—	2,101
Loss before income taxes	(9,841)	(10,366)	(7,241)	19,630	(7,818)
Provision for (benefit from) income taxes	—	(233)	1,346	(636)	477
Loss from continuing operations	(9,841)	(10,133)	(8,587)	20,266	(8,295)
Loss from discontinued operations, net of tax	—	—	(1,546)	—	(1,546)
Net loss	(9,841)	(10,133)	(10,133)	20,266	(9,841)
Other comprehensive loss	(3,631)	(3,631)	(3,631)	7,262	(3,631)
Comprehensive loss attributable to Exterran stockholders	$ (13,472)	$ (13,764)	$ (13,764)	$ 27,528	$ (13,472)

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

	Parent Guarantor	Issuers	Non- Guarantor Subsidiaries	Eliminations	Consolidation
Revenues	$ —	$ 223,429	$ 129,517	$ (18,097)	$ 334,849
Cost of sales (excluding depreciation and amortization expense)	—	183,640	72,569	(18,097)	238,112
Selling, general and administrative	285	23,035	21,783	—	45,103
Depreciation and amortization	—	9,015	22,093	—	31,108
Long-lived asset impairment	—	1,277	777	—	2,054
Restatement related recoveries, net	—	(342)	—	—	(342)
Restructuring and other charges	—	—	264	—	264
Interest expense	—	8,941	(1,256)	—	7,685
Intercompany charges, net	—	1,880	(1,880)	—	—
Equity in (income) loss of affiliates	(5,654)	(4,186)	15,774	(5,934)	—
Other (income) expense, net	—	(477)	192	—	(285)
Income (loss) before income taxes	5,369	646	(799)	5,934	11,150
Provision for income taxes	—	12,234	12,962	(17,242)	7,954
Income (loss) from continuing operations	5,369	(11,588)	(13,761)	23,176	3,196
Income from discontinued operations, net of tax	—	—	2,173	—	2,173
Net income (loss)	5,369	(11,588)	(11,588)	23,176	5,369
Other comprehensive loss	(2,673)	(2,673)	(2,673)	5,346	(2,673)
Comprehensive income (loss) attributable to Exterran stockholders	$ 2,696	$ (14,261)	$ (14,261)	$ 28,522	$ 2,696

Condensed Consolidating Statement of Operations and Comprehensive Loss
Nine Months Ended September 30, 2019
(In thousands)

	Parent Guarantor	Issuers	Non- Guarantor Subsidiaries	Eliminations	Consolidation
Revenues	$ —	$ 627,895	$ 504,165	$ (87,309)	$ 1,044,751
Cost of sales (excluding depreciation and amortization expense)	—	545,260	306,298	(87,309)	764,249
Selling, general and administrative	885	64,650	61,255	—	126,790
Depreciation and amortization	—	43,525	73,144	—	116,669
Long-lived asset impairment	—	8,889	—	—	8,889
Restatement related charges	—	20	—	—	20
Restructuring and other charges	—	4,375	3,591	—	7,966
Interest expense	—	28,293	(99)	—	28,194
Intercompany charges, net	—	3,584	(3,584)	—	—
Equity in (income) loss of affiliates	21,655	(50,473)	82,164	(53,346)	—
Other (income) expense, net	—	3,618	(3,239)	—	379
Loss before income taxes	(22,540)	(23,846)	(15,365)	53,346	(8,405)
Provision for income taxes	—	7,845	22,400	(10,036)	20,209
Loss from continuing operations	(22,540)	(31,691)	(37,765)	63,382	(28,614)
Income from discontinued operations, net of tax	—	—	6,074	—	6,074
Net loss	(22,540)	(31,691)	(31,691)	63,382	(22,540)
Other comprehensive loss	(4,179)	(4,179)	(4,179)	8,358	(4,179)
Comprehensive loss attributable to Exterran stockholders	$ (26,719)	$ (35,870)	$ (35,870)	$ 71,740	$ (26,719)

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

	Parent Guarantor	Issuers	Non- Guarantor Subsidiaries	Eliminations	Consolidation
Revenues	$ —	$ 722,078	$ 369,209	$ (62,584)	$ 1,028,703
Cost of sales (excluding depreciation and amortization expense)	—	600,393	202,761	(62,584)	740,570
Selling, general and administrative	920	65,152	67,655	—	133,727
Depreciation and amortization	—	27,030	65,291	—	92,321
Long-lived asset impairment	—	3,081	777	—	3,858
Restatement related recoveries, net	—	(318)	—	—	(318)
Restructuring and other charges	—	—	1,686	—	1,686
Interest expense	—	21,438	349	—	21,787
Intercompany charges, net	—	4,953	(4,953)	—	—
Equity in (income) loss of affiliates	(11,548)	(13,817)	5,932	19,433	—
Other (income) expense, net	(153)	(1,846)	8,338	—	6,339
Income before income taxes	10,781	16,012	21,373	(19,433)	28,733
Provision for income taxes	—	8,127	18,604	(3,663)	23,068
Income from continuing operations	10,781	7,885	2,769	(15,770)	5,665
Income from discontinued operations, net of tax	—	—	5,116	—	5,116
Net income	10,781	7,885	7,885	(15,770)	10,781
Other comprehensive loss	(10,039)	(10,039)	(10,039)	20,078	(10,039)
Comprehensive income (loss) attributable to Exterran stockholders	$ 742	$ (2,154)	$ (2,154)	$ 4,308	$ 742

Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2019
(In thousands)

	Parent Guarantor	Issuers	Non- Guarantor Subsidiaries	Eliminations	Consolidation
Cash flows from operating activities:					
Net cash provided by (used in) continuing operations	$ 683	$ (8,442)	$ 128,754	$ —	$ 120,995
Net cash provided by discontinued operations	—	—	1,967	—	1,967
Net cash provided by (used in) operating activities	683	(8,442)	130,721	—	122,962
Cash flows from investing activities:					
Capital expenditures	—	(69,290)	(102,828)	—	(172,118)
Proceeds from sale of property, plant and equipment	—	731	3,551	—	4,282
Intercompany transfers	—	(38,268)	(27,357)	65,625	—
Settlement of foreign currency derivatives	—	(794)	—	—	(794)
Net cash used in investing activities	—	(107,621)	(126,634)	65,625	(168,630)
Cash flows from financing activities:					
Proceeds from borrowings of debt	—	530,000	—	—	530,000
Repayments of debt	—	(439,338)	—	—	(439,338)
Intercompany transfers	38,268	27,357	—	(65,625)	—
Transfers from Archrock, Inc.	—	420	—	—	420
Purchases of treasury stock	(38,939)	(2,657)	—	—	(41,596)
Net cash provided by (used in) financing activities	(671)	115,782	—	(65,625)	49,486
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	(1,298)	—	(1,298)
Net increase (decrease) in cash, cash equivalents and restricted cash	12	(281)	2,789	—	2,520
Cash, cash equivalents and restricted cash at beginning of period	45	1,186	18,247	—	19,478
Cash, cash equivalents and restricted cash at end of period	$ 57	$ 905	$ 21,036	$ —	$ 21,998

Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2018
(In thousands)

	Parent Guarantor	Issuers	Non- Guarantor Subsidiaries	Eliminations	Consolidation
Cash flows from operating activities:					
Net cash provided by (used in) continuing operations	$ (386)	$ (7,525)	$ 96,704	$ —	$ 88,793
Net cash provided by discontinued operations	—	—	1,144	—	1,144
Net cash provided by (used in) operating activities	(386)	(7,525)	97,848	—	89,937
Cash flows from investing activities:					
Capital expenditures	—	(54,713)	(97,513)	—	(152,226)
Proceeds from sale of property, plant and equipment	—	51	2,379	—	2,430
Proceeds from sale of business	—	5,000	—	—	5,000
Intercompany transfers	—	5	6,562	(6,567)	—
Net cash used in continuing operations	—	(49,657)	(88,572)	(6,567)	(144,796)
Net cash provided by discontinued operations	—	—	66	—	66
Net cash used in investing activities	—	(49,657)	(88,506)	(6,567)	(144,730)
Cash flows from financing activities:					
Proceeds from borrowings of debt	—	415,000	—	—	415,000
Repayments of debt	—	(365,371)	—	—	(365,371)
Intercompany transfers	(5)	(6,562)	—	6,567	—
Payments for debt issuance costs	—	(92)	—	—	(92)
Proceeds from stock options exercised	—	548	—	—	548
Purchases of treasury stock	—	(3,780)	—	—	(3,780)
Net cash provided by (used in) financing activities	(5)	39,743	—	6,567	46,305
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	(3,691)	—	(3,691)
Net increase (decrease) in cash, cash equivalents and restricted cash	(391)	(17,439)	5,651	—	(12,179)
Cash, cash equivalents and restricted cash at beginning of period	397	24,195	25,099	—	49,691
Cash, cash equivalents and restricted cash at end of period	$ 6	$ 6,756	$ 30,750	$ —	$ 37,512

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* and through the SEC's website at *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, environmental discharges and natural disasters;
- the risk that counterparties will not perform their obligations under their contracts with us or other changes that could impact our ability to recover our fixed asset investment;
- 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 or maintaining our asset utilization, particularly with respect to our fleet of compressors and other assets;
  - 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;
- 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,” “the Company,” “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.

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 companies to focus operational and compensation strategies on returns and cash flow generation rather than solely on growth. To accomplish these strategies, energy companies may need to better prioritize capital spending, which could continue to 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.

We have continued to work toward our strategy to be a company that leverages technology and operational excellence to providing complete systems and process solutions in energy and industrial applications. Over the past several years, we have made significant progress in this journey by taking actions to protect our core business, develop important organizational capabilities and implement new processes to position Exterran for success. We are focused on optimizing our portfolio of products and services to better serve our global customers while providing a more attractive investment option for our investors. As we continue on this path, we are also reviewing options for our U.S. compression fabrication business to be a positive contributor to our strategy. This business has performed well over the past year despite difficult market conditions as we worked to maximize margins and returns. We will fully explore our options and we are committed to supporting our customers, employees and other stakeholders throughout the process.

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 $2.37 per MMBtu at September 30, 2019, which was 27% and 21% lower than the prices at December 31, 2018 and September 30, 2018, respectively, and the U.S. natural gas liquid composite price was $4.62 per MMBtu for the month of July 2019, which was 28% and 56% lower than the prices for the month of December 2018 and September 2018, respectively. In addition, the West Texas Intermediate crude oil spot price as of September 30, 2019 was 20% higher than the price at December 31, 2018 and 26% lower than the price at September 30, 2018. Volatility in commodity prices and an industry trend towards disciplined capital spending and improving returns have caused timing uncertainties in demand recently. These uncertainties have caused delays in the timing of new equipment orders and lower bookings in our product sales segment. Booking activity levels for our product sales segment in North America during the nine months ended September 30, 2019 were $143.5 million, which represents a decrease of 81% compared to the nine months ended September 30, 2018.

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 product sales segment in international markets during the nine months ended September 30, 2019 were $140.0 million, which represents a decrease of 35% compared to the nine months ended September 30, 2018.

Aggregate booking activity levels for our product sales segment in North America and international markets during the nine months ended September 30, 2019 were $283.5 million, which represents a decrease of 71% compared to the nine months ended September 30, 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 continue to 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.

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 orders awarded for contract operations, we expect to invest more capital in our contract operations business in 2019 than we did in 2018.

A decline in demand for oil and natural gas or prices for those commodities, or instability and prioritization of capital funding 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):

	September 30, 2019	December 31, 2018	September 30, 2018
Contract Operations Backlog:			
Contract operations services	$ 1,210,187	$ 1,398,644	$ 1,357,283
Product Sales Backlog:			
Compression equipment	$ 196,144	$ 471,827	$ 464,866
Processing and treating equipment	50,176	229,258	284,943
Production equipment	—	2,438	5,450
Other product sales	62,174	2,246	3,879
Total product sales backlog	$ 308,494	$ 705,769	$ 759,138

Financial Results of Operations

Summary of Results

Revenue.
Revenue during the three months ended September 30, 2019 and 2018 was $302.4 million and $334.8 million, respectively. The decrease in revenue during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 was due to a decrease in revenue in our product sales segment, partially offset by increases in revenue in our contract operations and aftermarket services segments.

Revenue during the nine months ended September 30, 2019 and 2018 was $1,044.8 million and $1,028.7 million, respectively. The increase in revenue during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was due to increases in revenue in our product sales and aftermarket services segments, partially offset by a decrease in our contract operations segment.

Net income (loss).

We generated net loss of $9.8 million and net income of $5.4 million during the three months ended September 30, 2019 and 2018, respectively. The decrease in net income during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 was primarily due to a decrease in gross margin for our product sales segment and an increase in depreciation and amortization expense, partially offset by decreases in income taxes and selling, general and administrative (“SG&A”) expense. Net loss during the three months ended September 30, 2019 included loss from discontinued operations, net of tax, of $1.5 million and net income during the three months ended September 30, 2018 included income from discontinued operations, net of tax, of $2.2 million.

We generated net loss of $22.5 million and net income of $10.8 million during the nine months ended September 30, 2019 and 2018, respectively. The decrease in net income during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was primarily due to an increase in depreciation and amortization expense, a decrease in gross margin for our product sales segment and increases in interest expense and restructuring and other charges, partially offset by a decrease in SG&A expenses, a decrease in foreign currency losses of $2.9 million and a loss of $1.7 million on the sale of our North America production equipment assets (“PEQ assets”) in the prior year period. Net loss during the nine months ended September 30, 2019 included income from discontinued operations, net of tax, of $6.1 million and net income during the nine months ended September 30, 2018 included income from discontinued operations, net of tax, of $5.1 million.

EBITDA, as adjusted.

Our EBITDA, as adjusted, was $50.1 million and $52.1 million during the three months ended September 30, 2019 and 2018, respectively. EBITDA, as adjusted, during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 decreased primarily due to a decrease in gross margin for our product sales segment, partially offset by a decrease in SG&A and an increase in gross margin for our contract operations segment.

Our EBITDA, as adjusted, was $153.4 million and $154.0 million during the nine months ended September 30, 2019 and 2018, respectively. EBITDA, as adjusted, during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 decreased primarily due to a decrease in gross margin for our product sales segment, partially offset by a decrease in SG&A and increases in gross margin for our contract operations and aftermarket services segments.

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

The Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Contract Operations
(dollars in thousands)

	Three Months Ended September 30,			
	2019	2018	Change	% Change
Revenue	$ 96,261	$ 84,828	$ 11,433	13 %
Cost of sales (excluding depreciation and amortization expense)	34,356	27,768	6,588	24 %
Gross margin	$ 61,905	$ 57,060	$ 4,845	8 %
Gross margin percentage (1)	64%	67%	(3)%	(4)%

(1) Defined as gross margin divided by revenue.

The increase in revenue during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 was primarily due to increases in revenue of $10.4 million and $1.6 million in the Middle East and Africa region and the North America region, respectively, partially offset by a decrease in revenue of $1.1 million in the Asia Pacific region. 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 and the start-up of a project that commenced August 2018. The revenue increase in the North America region was primarily due to a contract amendment that resulted in higher revenue in the current year period. The revenue decrease in the Asia Pacific region was primarily driven by projects that terminated in the fourth quarter of 2018. Gross margin increased during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to the revenue increases explained above. Gross margin percentage decreased during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to higher maintenance expenses in the current year period resulting from delayed maintenance expenditures in the prior year period.

Aftermarket Services
(dollars in thousands)

	Three Months Ended September 30,			
	2019	2018	Change	% Change
Revenue	$ 34,893	$ 29,993	$ 4,900	16 %
Cost of sales (excluding depreciation and amortization expense)	26,079	22,138	3,941	18 %
Gross margin	$ 8,814	$ 7,855	$ 959	12 %
Gross margin percentage	25%	26%	(1)%	(4)%

The increase in revenue during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 was primarily due to an increase in installation services, offset by a decrease in part sales. Gross margin increased during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 primarily due to the revenue increase explained above. Gross margin percentage during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 remained relatively flat.

Product Sales
(dollars in thousands)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Change	% Change
Revenue	$ 171,277	$ 220,028	$ (48,751)	(22)%
Cost of sales (excluding depreciation and amortization expense)	153,011	188,206	(35,195)	(19)%
Gross margin	$ 18,266	$ 31,822	$ (13,556)	(43)%
Gross margin percentage	11%	14%	(3)%	(21)%

The decrease in revenue during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 was primarily due to a decrease in revenue of $59.8 million in the North America region, partially offset by an increase in revenue of $12.6 million in the Middle East and Africa region. The decrease in revenue in the North America region was primarily due to a decrease of $71.4 million in processing and treating equipment revenue, partially offset by an increase of $12.5 million in compression equipment revenue. The increase in revenue in the Middle East and Africa region was primarily due to an increase of $14.5 million in processing and treating equipment revenue. Gross margin decreased during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to the revenue decrease explained above and higher expenses on a specific project in the North America region. Gross margin percentage during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 decreased primarily due to the higher expenses discussed above and a shift in product mix in the North America region during the current year period.

Costs and Expenses
(dollars in thousands)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Change	% Change
Selling, general and administrative	$ 37,702	$ 45,103	$ (7,401)	(16)%
Depreciation and amortization	42,133	31,108	11,025	35 %
Long-lived asset impairment	2,970	2,054	916	45 %
Restatement related recoveries, net	—	(342)	342	(100)%
Restructuring and other charges	1,794	264	1,530	580 %
Interest expense	10,103	7,685	2,418	31 %
Other (income) expense, net	2,101	(285)	2,386	(837)%

Selling, general and administrative
SG&A expense decreased during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 primarily due to a decrease in compensation and associated costs and a decrease in third-party professional expenses. SG&A expense as a percentage of revenue was 12% and 13% during the three months ended September 30, 2019 and 2018, respectively.

Depreciation and amortization
Depreciation and amortization expense during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 increased primarily due to an increase in depreciation expense of $5.4 million in the current year period resulting from an amendment to a contract operations contract in the fourth quarter of 2018. Additionally, depreciation expense of capitalized installation costs increased by $7.1 million primarily due to additional depreciation on projects that were not operating in the prior year period. Capitalized installation costs included, among other things, civil engineering, piping, electrical instrumentation and project management costs.

Long-lived asset impairment
In the second quarter of 2019, we classified certain long-lived assets as assets held for sale in our balance sheets. In conjunction with the planned disposition of these units, we recorded an additional impairment charge of $3.0 million to write-down these assets to their approximate fair values during the three months ended September 30, 2019 based on the expected net proceeds.

We regularly review the future deployment of our idle compression assets used in our contract operations segment for units that are not the type, configuration, condition, make or model that are cost efficient to maintain and operate. During the third quarter 2018, we evaluated idle units that had been previously culled from our fleet and were available for sale for impairment. Based upon that review, we reduced the expected proceeds from disposition for certain units. This resulted in an additional impairment of $2.1 million to reduce the book value of each unit to its estimated fair value during the three months ended September 30, 2018. The fair value of each unit was estimated based on the expected net sale proceeds compared to other fleet units we recently sold and/or a review of other units recently offered for sale by third parties.

Restructuring and other charges
The energy industry's focus on capital discipline and improving returns has caused delays in the timing of new equipment orders. As a result, in the second quarter of 2019, we began the consolidation of two of our manufacturing facilities located in Houston, Texas into one facility and announced a cost reduction plan primarily focused on workforce reductions. We incurred restructuring and other charges associated with these activities of $1.8 million during the three months ended September 30, 2019.

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 September 30, 2018, we incurred restructuring and other charges of $0.3 million primarily related to relocation costs.

Interest expense
The increase in interest expense during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 was primarily due to a decrease in capitalized interest and a higher average balance of long-term debt. During the three months ended September 30, 2019 and 2018, the average daily outstanding borrowings of long-term debt were $519.9 million and $453.0 million, respectively.

Other (income) expense, net
The change in other (income) expense, net, was primarily due to foreign currency losses of $3.1 million during the three months ended September 30, 2019 compared to foreign currency losses of $0.8 million during the three months ended September 30, 2018. Foreign currency losses included translation losses of $0.9 million and $0.2 million during the three months ended September 30, 2019 and 2018, respectively, related to the currency remeasurement of our foreign subsidiaries' non-functional currency denominated intercompany obligations.

Income Taxes
(dollars in thousands)

	Three Months Ended September 30,			
	2019	**2018**	**Change**	**% Change**
Provision for income taxes	$ 477	$ 7,954	$ (7,477)	(94)%
Effective tax rate	(6.1)%	71.3%	(77.4)%	(109)%

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 affected 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 three months ended September 30, 2019: (i) a $0.8 million favorable impact resulting primarily from rate differences between U.S. and foreign jurisdictions including foreign withholding taxes, (ii) a $0.6 million negative impact resulting from foreign currency devaluations in Argentina, and (iii) a $2.5 million negative impact resulting from the recording of valuation allowances recorded against U.S. deferred tax assets.

Discontinued Operations
(dollars in thousands)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Change	% Change
Income (loss) from discontinued operations, net of tax	$ (1,546)	$ 2,173	$ (3,719)	(171)%

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

Income (loss) from discontinued operations, net of tax, during the three months ended September 30, 2019 compared to the three months ended September 30, 2018 decreased primarily due to a $3.6 million decrease in income from Belleli EPC primarily driven by decreased activity as we continued to close out the business. For further details on our discontinued operations, see Note 4 to the Financial Statements.

The Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

Contract Operations
(dollars in thousands)

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Change	% Change
Revenue	$ 271,645	$ 272,808	$ (1,163)	— %
Cost of sales (excluding depreciation and amortization expense)	93,283	95,525	(2,242)	(2)%
Gross margin	$ 178,362	$ 177,283	$ 1,079	1 %
Gross margin percentage (1)	66%	65%	1%	2 %

(1) Defined as gross margin divided by revenue.

The decrease in revenue during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was primarily due to decreases in revenue of $16.8 million and $6.2 million in the Latin America region and Asia Pacific region, respectively, partially offset by increases in revenue of $19.3 million and $2.5 million in the Middle East and Africa region and the North America region, respectively. The revenue decrease in the Latin America region was primarily driven by a decrease of $11.2 million in Argentina largely resulting from the current year impact of the devaluation of the Argentine Peso and projects that terminated operations in 2018 and a $9.0 million decrease in Brazil primarily driven by projects that terminated in 2018 and 2019 and the impact of foreign currency exchange rates. These revenue decreases in the Latin America region were partially offset by an increase of $3.8 million due to the start-up of a project that was not operating in the prior year period. 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 and projects that terminated in the fourth quarter of 2018. 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 and the start-up of a project that commenced August 2018. The increase of revenue in the North America region was primarily due to a renegotiation of a contract in the fourth quarter that resulted in higher revenue in the current year period. Gross margin and gross margin percentage remained relatively flat during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

Aftermarket Services
(dollars in thousands)

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
Revenue	$ 92,308	$ 88,631	$ 3,677	4%
Cost of sales (excluding depreciation and amortization expense)	67,814	64,741	3,073	5%
Gross margin	$ 24,494	$ 23,890	$ 604	3%
Gross margin percentage	27%	27%	—%	—%

The increase in revenue during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was primarily due to an increase in installation services, partially offset by a decrease in operation and maintenance services. Gross margin during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was primarily due to the revenue increase explained above. Gross margin percentage remained flat during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

Product Sales
(dollars in thousands)

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
Revenue	$ 680,798	$ 667,264	$ 13,534	2 %
Cost of sales (excluding depreciation and amortization expense)	603,152	580,304	22,848	4 %
Gross margin	$ 77,646	$ 86,960	$ (9,314)	(11)%
Gross margin percentage	11%	13%	(2)%	(15)%

The increase in revenue during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was primarily due to an increase in revenue of $129.1 million in the Middle East and Africa region, partially offset by decreases in revenue of $95.3 million and $16.5 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 $131.0 million in processing and treating equipment revenue. The decrease in revenue in the North America region was primarily due to decreases of $164.4 million and $12.5 million in processing and treating equipment revenue and production equipment revenue, respectively, partially offset by an increase of $81.6 million in compression equipment revenue. In June 2018, we completed the sale of our PEQ assets. The decrease in revenue in the Asia Pacific region was primarily due to a decrease of $12.9 million in compression equipment revenue. Gross margin decreased during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to higher expenses on a specific project in the North America region. Gross margin percentage during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 decreased primarily due to the higher expenses discussed above and a shift in product mix in the North America region during the current year period.

Costs and Expenses
(dollars in thousands)

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
Selling, general and administrative	$ 126,790	$ 133,727	$ (6,937)	(5)%
Depreciation and amortization	116,669	92,321	24,348	26 %
Long-lived asset impairment	8,889	3,858	5,031	130 %
Restatement related charges	20	(318)	338	(106)%
Restructuring and other charges	7,966	1,686	6,280	372 %
Interest expense	28,194	21,787	6,407	29 %
Other (income) expense, net	379	6,339	(5,960)	(94)%

Selling, general and administrative
SG&A expense decreased during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 primarily due to a decrease in compensation and associated costs and a decrease in third-party professional expenses. SG&A expense as a percentage of revenue was 12% and 13% during the nine months ended September 30, 2019 and 2018, respectively.

Depreciation and amortization
Depreciation and amortization expense during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 increased primarily due to an increase in depreciation expense of $15.9 million in the current year period resulting from an amendment to a contract operations contract in the fourth quarter of 2018. Additionally, depreciation expense of capitalized installation costs increased by $8.1 million primarily due to additional depreciation on projects that were not operating in the prior year period. Capitalized installation costs included, among other things, civil engineering, piping, electrical instrumentation and project management costs.

Long-lived asset impairment
In the second quarter of 2019, we classified certain long-lived assets as assets held for sale in our balance sheets. In conjunction with the planned disposition of these units, we recorded impairment charges of $8.9 million to write-down these assets to their approximate fair values during the nine months ended September 30, 2019 based on the expected net proceeds.

During the third quarter 2018, we evaluated idle units that had been previously culled from our fleet and were available for sale for impairment. Based upon that review, we reduced the expected proceeds from disposition for certain units. This resulted in an additional impairment of $2.1 million to reduce the book value of each unit to its estimated fair value during the nine months ended September 30, 2018. The fair value of each unit was estimated based on the expected net sale proceeds compared to other fleet units we recently sold and/or a review of other units recently offered for sale by third parties.

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 nine months ended September 30, 2018, we recorded an impairment of $1.8 million to reduce these assets to their approximate fair values based on the expected net proceeds.

Restructuring and other charges
The energy industry's focus on capital discipline and improving returns has caused delays in the timing of new equipment orders. As a result, in the second quarter of 2019, we began the consolidation of two of our manufacturing facilities located in Houston, Texas into one facility and announced a cost reduction plan primarily focused on workforce reductions. We incurred restructuring and other charges associated with these activities of $7.7 million during the nine months ended September 30, 2019.

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 nine months ended September 30, 2019 and 2018, we incurred restructuring and other charges of $0.2 million and $1.7 million, respectively, related to relocation costs and employee termination benefits.

Interest expense
The increase in interest expense during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was primarily due to a decrease in capitalized interest and a higher average balance of long-term debt. During the nine months ended September 30, 2019 and 2018, the average daily outstanding borrowings of long-term debt were $508.8 million and $455.3 million, respectively.

Other (income) expense, net
The change in other (income) expense, net, was primarily due to foreign currency losses, net of losses on foreign currency derivatives, of $3.5 million during the nine months ended September 30, 2019 compared to foreign currency losses of $6.4 million during the nine months ended September 30, 2018. Foreign currency losses included translation losses, net of losses on foreign currency derivatives, of $0.1 million and translation losses of $4.2 million during the nine months ended September 30, 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 $1.0 million in gains on sale of property, plant and equipment in the current year period and a loss of $1.7 million on the sale of our PEQ assets in the prior year period.

Income Taxes
(dollars in thousands)

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
Provision for income taxes	$ 20,209	$ 23,068	$ (2,859)	(12)%
Effective tax rate	(240.4)%	80.3%	(320.7)%	(399)%

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 affected 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 nine months ended September 30, 2019: (i) a $6.6 million negative impact resulting primarily from rate differences between U.S. and foreign jurisdictions including foreign withholding taxes, (ii) a $7.4 million negative impact resulting from foreign currency devaluations in Argentina, and (iii) a $7.3 million negative impact resulting from the recording of valuation allowances recorded against U.S. deferred tax assets.

Discontinued Operations
(dollars in thousands)

	Nine Months Ended September 30,			
	2019	2018	Change	% Change
Income from discontinued operations, net of tax	$ 6,074	$ 5,116	$ 958	19%

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, during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 increased primarily due to a $1.0 million increase in income from Belleli EPC. For further details on our discontinued operations, see Note 4 to the Financial Statements.

Liquidity and Capital Resources

Our unrestricted cash balance was $22.0 million at September 30, 2019 compared to $19.3 million at December 31, 2018. Working capital increased to $165.8 million at September 30, 2019 from $108.7 million at December 31, 2018. The increase in working capital was primarily due to a decrease in accounts payable and a decrease in contract liabilities, partially offset by a decrease in contract assets. The decrease in accounts payable was largely caused by the timing of purchases and payments to suppliers during the current year period. The decrease in contract liabilities was primarily due to the timing of payments received on a significant product sales contract in the Middle East and Africa region. The decrease in contract assets were primarily driven by higher product sales activity in North America.

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

	Nine Months Ended September 30,	
	2019	**2018**
Net cash provided by (used in) continuing operations:		
Operating activities	$ 120,995	$ 88,793
Investing activities	(168,630)	(144,796)
Financing activities	49,486	46,305
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,298)	(3,691)
Discontinued operations	1,967	1,210
Net change in cash, cash equivalents and restricted cash	$ 2,520	$ (12,179)

Operating Activities. The increase in net cash provided by operating activities during the nine months ended September 30, 2019 compared to the nine months ended September 30, 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 projects. Working capital changes during the nine months ended September 30, 2019 included a decrease of $63.3 million in accounts payable and a decrease of $49.3 million in contract assets. Working capital changes during the nine months ended September 30, 2018 included an increase of $51.1 million in inventory and an increase of $16.3 million in contract assets.

Investing Activities. The increase in net cash used in investing activities during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was primarily attributable to a $19.9 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 nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was primarily attributable to an increase in net borrowings of $41.0 million on our long-term debt, partially offset by an increase of $37.8 million in purchases of treasury stock.

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 $190 million to $200 million in capital expenditures during 2019, including (1) approximately $155 million on contract operations growth capital expenditures and (2) approximately $35 million to $40 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 nine months ended September 30, 2019 and 2018, the average daily outstanding borrowings of long-term debt were $508.8 million and $455.3 million, respectively. The weighted average annual interest rate on outstanding borrowings under our revolving credit facility at September 30, 2019 and 2018 was 4.1% and 4.0%, respectively. LIBOR and certain other “benchmarks” are the subject of recent national, international and other regulatory guidance and proposals for reform. In particular, on July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is unclear whether, at that time, LIBOR will cease to exist or if new methods of calculating LIBOR will be established. Central banks and regulators in a number of major jurisdictions (for example, U.S., United Kingdom, European Union, Switzerland, and Japan) have convened working groups to find and implement the transition to suitable replacement benchmarks. We are in the beginning stages of creating a program that focuses on identifying, evaluating, and monitoring financial and non-financial risks that may result if LIBOR rates are no longer published after 2021.

As of September 30, 2019, we had $126.0 million in outstanding borrowings and $23.0 million in outstanding letters of credit under our revolving credit facility. At September 30, 2019, taking into account guarantees through letters of credit, we had undrawn capacity of $551.0 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, $472.9 million of the $551.0 million of undrawn capacity under our revolving credit facility was available for additional borrowings as of September 30, 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 September 30, 2019, we maintained a 7.2 to 1.0 interest coverage ratio, a 2.3 to 1.0 total leverage ratio and a 0.6 to 1.0 senior secured leverage ratio. As of September 30, 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”). We guarantee the 2017 Notes 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.

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 $22.0 million unrestricted cash balance at September 30, 2019, $21.3 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 nine months ended September 30, 2019, we repurchased 3,054,338 shares of our common stock for $38.9 million in connection with our share repurchase program. As of September 30, 2019, the remaining authorized repurchase amount under the share repurchase program was $61.1 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	$ (9,841)	$ 5,369	$ (22,540)	$ 10,781
(Income) loss from discontinued operations, net of tax	1,546	(2,173)	(6,074)	(5,116)
Depreciation and amortization	42,133	31,108	116,669	92,321
Long-lived asset impairment	2,970	2,054	8,889	3,858
Restatement related charges (recoveries), net	—	(342)	20	(318)
Restructuring and other charges	1,794	264	7,966	1,686
Interest expense	10,103	7,685	28,194	21,787
Loss on currency exchange rate remeasurement of intercompany balances	884	164	55	4,245
Loss on sale of business	—	—	—	1,714
Provision for income taxes	477	7,954	20,209	23,068
EBITDA, as adjusted	$ 50,066	$ 52,083	$ 153,388	$ 154,026

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 nine months ended September 30, 2019, the Argentine Peso depreciated by approximately 34% and Brazilian Real appreciated by approximately 7%. 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 losses of $2.7 million and $6.4 million in our statements of operations during the nine months ended September 30, 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 $3.9 million and $23.4 million, respectively, as of September 30, 2019. Foreign currency losses included translation gains of $0.2 million and translation losses of $4.2 million during the nine months ended September 30, 2019 and 2018, respectively, related to the functional currency remeasurement of our foreign subsidiaries' non-functional currency denominated intercompany obligations. During the nine months ended September 30, 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 $0.8 million during the nine months ended September 30, 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.

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 September 30, 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 principle financial officer, on a timely basis to ensure that it is recoded, 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.

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 September 30, 2019:

Period	Total Number of Shares Repurchased[1]	Average Price Paid Per Unit	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Approximate Dollar Value of Shares yet to be Purchased Under the Publicly Announced Plans or Programs [2]
July 1, 2019 - July 31, 2019	454	$ 17.90	—	$ 81,213,252
August 1, 2019 - August 31, 2019	11,384	10.78	756,261	73,449,557
September 1, 2019 - September 30, 2019	142	13.01	1,007,999	61,061,250
Total	11,980	$ 11.08	1,764,260	$ 61,061,250

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

(2) 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.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
2.1	Separation and Distribution Agreement, dated as of November 3, 2015, by and among Exterran Holdings, Inc., Exterran General Holdings LLC, Exterran Energy Solutions, L.P., Exterran Corporation, AROC Corp., EESLP LP LLC, AROC Services GP LLC, AROC Services LP LLC and Archrock Services, L.P., incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on November 5, 2015
2.2	First Amendment to Separation and Distribution Agreement, dated as of December 15, 2015, by and among Archrock, Inc., Exterran General Holdings LLC, Exterran Energy Solutions, L.P., Exterran Corporation, AROC Corp., EESLP LP LLC, AROC Services GP LLC, AROC Services LP LLC and Archrock Services, L.P., incorporated by reference to Exhibit 2.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015
31.1*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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* Filed herewith.

** Furnished, not filed.

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: November 5, 2019	By:	/s/ DAVID A. BARTA
		David A. Barta
		Senior Vice President and Chief Financial Officer
		(Principal Financial Officer)

Exhibit 31.1

Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Andrew J. Way, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Exterran Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

By:	/s/ ANDREW J. WAY	
	Name:	Andrew J. Way
	Title:	Chief Executive Officer
		(Principal Executive Officer)

Exhibit 31.2

Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David A. Barta, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Exterran Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

By:	/s/ DAVID A. BARTA	
	Name:	David A. Barta
	Title:	Senior Vice President and Chief Financial Officer
		(Principal Financial Officer)

Exhibit 32.1

Certification of CEO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Exterran Corporation (the "Company") for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Andrew J. Way, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

/s/ ANDREW J. WAY

Name:	Andrew J. Way
Title:	President and Chief Executive Officer

Date: November 5, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification of CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Exterran Corporation (the “Company”) for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), David A. Barta, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

/s/ DAVID A. BARTA

Name:	David A. Barta
Title:	Senior Vice President and Chief Financial Officer

Date: November 5, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.