Exterran Corp
Form 10-Q
August 07, 2018

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

Form 10-Q
(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 001-36875

EXTERRAN CORPORATION
(Exact name of registrant as specified in its charter)

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

4444 Brittmoore Road	
Houston, Texas	77041
(Address of principal executive offices)	(Zip Code)

(281) 836-7000
(Registrant’s telephone number, including area code)

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

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

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 x	Accelerated filer o

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

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. o

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

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

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

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

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

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

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

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

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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 Topic 606 (Note 1)			(10,021)			(10,021)
Net income			5,412			5,412
Options exercised		563				563
Foreign currency translation adjustment					(7,366)	(7,366)
Treasury stock purchased				(3,481)		(3,481)
Stock-based compensation, net of forfeitures	5	7,053				7,058
Balance, June 30, 2018	$ 367	$ 746,780	$ (228,119)	$ (10,418)	$ 38,341	$ 546,951

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

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

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

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

equivalents and restricted cash				
Cash, cash equivalents and restricted cash at beginning of period	49,691		36,349	
Cash, cash equivalents and restricted cash at end of period	$	18,738	$	46,035

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

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EXTERRAN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Description of Business and Basis of Presentation

Description of Business

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

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

Basis of Presentation

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

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

Recent Accounting Pronouncements

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

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Recently Adopted Accounting Pronouncements

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

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

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

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

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

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

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

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

Recently Issued Accounting Pronouncements Not Yet Adopted

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

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

Note 2 - Revenue

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

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Disaggregation of Revenue

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

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

[1] Revenue recognized over time.
[2] Revenue recognized at a point in time.

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

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

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

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Contract Operations Segment

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

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

Aftermarket Services Segment

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

Operations and maintenance services: Operation and maintenance services include personnel to run the equipment and monitor the outputs of the equipment, along with performing preventative or scheduled maintenance on customer-owned equipment. Operation and maintenance services represent a series of distinct monthly services that are substantially the same, with the same pattern of transfer to the customer. Because our customers benefit equally throughout the service period and our efforts in providing operation and maintenance services are incurred relatively evenly over the period of performance, revenue is recognized over time using a time based measure as we provide our services to the customer. Our contracts generally require customers to pay a monthly service fee, which may contain variable consideration such as production or volume based fees and performance bonuses or penalties. Variable considerations included in our contracts are typically resolved on a monthly basis, and as such, variable considerations included in our contracts are generally allocated to each distinct month in the series within the contract. We generally enter into contracts with our operation and maintenance customers with initial terms ranging between two to four years, and in some cases, in excess of six years. In many instances, we are able to renew those contracts prior to the expiration of the initial term.

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

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

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

Product Sales Segment

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

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

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

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

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

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

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

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

Significant Estimates

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

Variable Consideration

The nature of our contracts gives rise to several types of variable consideration. We estimate variable consideration at the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Additionally, we include in our contract estimates additional revenue for unapproved change orders or claims against customers when we believe we have an enforceable right to the modification or claim, the amount can be estimated reliably and its realization is probable. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and historical, current and forecasted information that is reasonably available to us.

Contracts with Multiple Performance Obligations

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

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Contract Assets and Contract Liabilities

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

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

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

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

Costs to Fulfill a Contract

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

Costs to Obtain a Contract

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

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Practical Expedients and Exemptions

We have elected the following practical expedients:

- We do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised product or service to a customer and when the customer pays for that product or service will be one year or less.
- We treat shipping and handling activities that occur after the transfer of control as costs to fulfill a contract rather than a separate performance obligation.
- We record taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by us from our customers on a net basis, and thus, such taxes are excluded from the measurement of a performance obligation's transaction price.
- We expense sales commissions as incurred when we expect that the amortization period of such costs will be one year or less.

Impact of New Revenue Recognition Guidance on Financial Statement Line Items

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

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

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

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

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

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

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

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Note 3 - Discontinued Operations

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

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

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

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

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

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

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

	June 30, 2018			December 31, 2017		
	Venezuela	Belleli EPC	Total	Venezuela	Belleli EPC	Total
Cash	$ 1	$ —	$ 1	$ 3	$ —	$ 3
Accounts receivable	—	6,022	6,022	—	14,770	14,770
Costs and estimated earnings in excess of billings on uncompleted contracts	—					