

Edgar Filing: USA Compression Partners, LP - Form 10-Q

USA Compression Partners, LP
Form 10-Q
November 05, 2015
Table of Contents

c

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, 2015

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. 001-35779

USA Compression Partners, LP

(Exact name of registrant as specified in its charter)

Edgar Filing: USA Compression Partners, LP - Form 10-Q

Delaware (State or Other Jurisdiction of Incorporation or Organization)	75-2771546 (I.R.S. Employer Identification No.)
100 Congress Avenue, Suite 450 Austin, Texas (Address of principal executive offices)	78701 (Zip Code)

(512) 473-2662

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of November 3, 2015, there were 37,593,010 common units and 14,048,588 subordinated units outstanding.

Table of Contents

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	Page
<u>ITEM 1. Financial Statements</u>	1
<u>Unaudited Condensed Consolidated Balance Sheets</u>	1
<u>Unaudited Condensed Consolidated Statements of Operations</u>	2
<u>Unaudited Condensed Consolidated Statement of Changes in Partners' Capital</u>	3
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	4
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>ITEM 4. Controls and Procedures</u>	28
<u>PART II. OTHER INFORMATION</u>	30
<u>ITEM 1. Legal Proceedings</u>	30
<u>ITEM 1A. Risk Factors</u>	30
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>ITEM 3. Defaults Upon Senior Securities</u>	30
<u>ITEM 4. Mine Safety Disclosures</u>	30
<u>ITEM 5. Other Information</u>	30
<u>ITEM 6. Exhibits</u>	30
<u>SIGNATURES</u>	31

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

USA COMPRESSION PARTNERS, LP AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

(Dollars in thousands, except unit amounts)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 7	\$ 6
Accounts receivable, net:		
Trade, net	28,723	25,159
Other	3,188	2,926
Inventory, net	22,273	8,923
Prepaid expenses	2,419	1,020
Total current assets	56,610	38,034
Property and equipment, net	1,302,554	1,162,637
Installment receivable	18,037	20,241
Identifiable intangible assets, net	79,669	82,357
Goodwill	208,055	208,055
Other assets	7,259	5,158
Total assets	\$ 1,672,184	\$ 1,516,482
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable	\$ 11,646	\$ 44,535
Accrued liabilities	39,699	21,708
Deferred revenue	17,087	15,855
Total current liabilities	68,432	82,098
Long-term debt	712,314	594,864
Other liabilities	1,076	—
Partners' capital:		
Limited partner interest:	673,334	600,401

Edgar Filing: USA Compression Partners, LP - Form 10-Q

Common units, 37,589,602 and 31,307,116 units issued and outstanding,
respectively

Subordinated units, 14,048,588 issued and outstanding each period	204,157	225,221
General partner interest	12,871	13,898
Total partners' capital	890,362	839,520
Total liabilities and partners' capital	\$ 1,672,184	\$ 1,516,482

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

USA COMPRESSION PARTNERS, LP AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations

(Dollars in thousands, except unit amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenues:				
Contract operations	\$ 68,227	\$ 55,293	\$ 197,814	\$ 157,317
Parts and service	2,313	1,752	4,116	3,198
Total revenues	70,540	57,045	201,930	160,515
Costs and expenses:				
Cost of operations, exclusive of depreciation and amortization	21,919	19,430	60,209	55,145
Selling, general and administrative	10,351	10,443	30,430	29,098
Depreciation and amortization	21,360	18,261	63,598	51,525
Loss (gain) on sale of assets	920	63	702	(2,228)
Impairment of compression equipment (Note 3)	443	1,163	27,272	1,163
Total costs and expenses	54,993	49,360	182,211	134,703
Operating income	15,547	7,685	19,719	25,812
Other income (expense):				
Interest expense, net	(4,665)	(2,677)	(13,074)	(9,269)
Other	6	5	16	6
Total other expense	(4,659)	(2,672)	(13,058)	(9,263)
Net income before income tax expense	10,888	5,013	6,661	16,549
Income tax expense (Note 5)	1,083	—	1,304	103
Net income	\$ 9,805	\$ 5,013	\$ 5,357	\$ 16,446
Net income allocated to:				
General partner's interest in net income	\$ 411	\$ 194	\$ 778	\$ 467
Limited partners' interest in net income:				
Common units	\$ 7,185	\$ 3,338	\$ 3,868	\$ 11,133
Subordinated units	\$ 2,209	\$ 1,481	\$ 711	\$ 4,846
Weighted average common units outstanding:				
Basic	34,123,395	30,460,239	32,761,032	27,197,912
Diluted	34,233,579	30,517,689	32,868,130	27,263,124
Weighted average subordinated units outstanding:				
Basic and diluted	14,048,588	14,048,588	14,048,588	14,048,588
Net income per common unit:				
Basic	\$ 0.21	\$ 0.11	\$ 0.12	\$ 0.41
Diluted	\$ 0.21	\$ 0.11	\$ 0.12	\$ 0.41

Edgar Filing: USA Compression Partners, LP - Form 10-Q

Net income per subordinated unit:

Basic and diluted	\$ 0.16	\$ 0.11	\$ 0.05	\$ 0.34
Distributions declared per limited partner unit for respective periods	\$ 0.525	\$ 0.505	\$ 1.565	\$ 1.495

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

USA COMPRESSION PARTNERS, LP AND SUBSIDIARIES

Unaudited Condensed Consolidated Statement of Changes in Partners' Capital

Nine Months Ended September 30, 2015

(Dollars and units in thousands)

	Partners' Capital					Total
	Common Units		Subordinated Units		General Partner	Partners'
	Units	Amount	Units	Amount	Amount	Capital
Partners' capital, December 31, 2014	31,307	\$ 600,401	14,049	\$ 225,221	\$ 13,898	\$ 839,520
Vesting of phantom units	97	1,714	—	—	—	1,714
Distributions and DERs	—	(49,736)	—	(21,775)	(1,805)	(73,316)
Issuance of common units	6,186	116,877	—	—	—	116,877
Unit-based compensation	—	210	—	—	—	210
Net income	—	3,868	—	711	778	5,357
Partners' capital, September 30, 2015	37,590	\$ 673,334	14,049	\$ 204,157	\$ 12,871	\$ 890,362

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

USA COMPRESSION PARTNERS, LP AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows

(Dollars in thousands)

	Nine months ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 5,357	\$ 16,446
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,598	51,525
Amortization of debt issue costs	1,286	917
Unit-based compensation expense	3,068	2,956
Net loss (gain) on sale of assets	702	(2,228)
Impairment of compression equipment	27,272	1,163
Changes in assets and liabilities:		
Accounts receivable	(1,622)	(1,861)
Inventory	(14,335)	1,191
Prepays	(1,398)	1,013
Other noncurrent assets	(2)	(76)
Accounts payable	(8,875)	(6,986)
Accrued liabilities and deferred revenue	7,692	6,541
Net cash provided by operating activities	82,743	70,601
Cash flows from investing activities:		
Capital expenditures	(240,634)	(275,229)
Proceeds from sale of property and equipment	503	621
Proceeds from insurance recovery	563	—
Net cash used in investing activities	(239,568)	(274,608)
Cash flows from financing activities:		
Proceeds from long-term debt	392,265	390,088
Payments on long-term debt	(274,814)	(301,340)
Net proceeds from issuance of common units	75,163	137,285
Cash paid for taxes related to net settlement of unit-based awards	(189)	—
Cash distributions	(32,213)	(22,228)
General partner contribution	—	294
Financing costs and registration fees	(3,386)	(92)
Net cash provided by financing activities	156,826	204,007
Increase in cash and cash equivalents	1	—
Cash and cash equivalents, beginning of period	6	7
Cash and cash equivalents, end of period	\$ 7	\$ 7

Edgar Filing: USA Compression Partners, LP - Form 10-Q

Supplemental cash flow information:

Cash paid for interest	\$ 12,726	\$ 9,324
Cash paid for taxes	\$ 299	\$ 115
Supplemental non-cash transactions:		
Non-cash distributions to certain limited partners (DRIP)	\$ 41,714	\$ 38,548
Change in capital expenditures included in accounts payable and accrued liabilities	\$ 11,749	\$ (21,124)

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

USA COMPRESSION PARTNERS, LP AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

USA Compression Partners, LP (the “Partnership”) is a publicly traded Delaware limited partnership formed to own and operate the business conducted by its subsidiaries. The common units representing limited partner interests in the Partnership (“common units”) are listed on the New York Stock Exchange (“NYSE”) under the symbol “USAC.” USA Compression GP, LLC, the general partner of the Partnership (the “General Partner”), is owned by USA Compression Holdings, LLC (“USA Compression Holdings”). Unless the context requires otherwise, references to “we,” “us,” “our,” or the “Partnership” are intended to mean the business and operations of the Partnership and its wholly owned, consolidated subsidiaries (the “Operating Subsidiaries”). References to “Argonaut” refer to Argonaut Private Equity, L.L.C.

The Partnership, through its Operating Subsidiaries, provides compression services under term contracts with customers in the crude oil and natural gas industry, using natural gas compression packages that it designs, engineers, owns, operates and maintains. The unaudited condensed consolidated financial statements include the accounts of the Partnership and the Operating Subsidiaries, and all intercompany balances and transactions have been eliminated in consolidation.

The Partnership’s ownership is as follows:

	September 30, 2015					
	USA					
	Compression Holdings		Argonaut and Related Parties		Public	Total
General partner interest	1.5	%	—		—	1.5 %
Limited partner interest:						
Common units	12.6	%	15.5	%	43.6	71.7 %
Subordinated units	26.8	%	—		—	26.8 %
Total	40.9	%	15.5	%	43.6	100.0 %

Partnership net income (loss) is allocated to the partners, both general and limited, in proportion to their respective interest in the Partnership.

(b) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Partnership have been prepared on the same basis as the audited consolidated financial statements included in the Partnership's annual report on Form 10-K for the year ended December 31, 2014 filed on February 19, 2015 (our "2014 Annual Report"). In the opinion of the Partnership's management, such financial information reflects all adjustments necessary for a fair presentation of the financial position as of September 30, 2015 and December 31, 2014, and the results of operations for the three and nine months ended September 30, 2015 and 2014, changes in partners' capital for the nine months ended September 30, 2015 and the statements of cash flows for the nine months ended September 30, 2015 and 2014 in accordance with U.S. generally accepted accounting principles ("GAAP"). Operating results for the three and nine months ended September 30, 2015 and 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Therefore, these consolidated financial statements should be read in conjunction with the Partnership's audited consolidated financial statements for the year ended December 31, 2014 contained in our 2014 Annual Report.

(c) Use of Estimates

The unaudited condensed consolidated financial statements of the Partnership have been prepared in conformity with GAAP, which includes the use of estimates and assumptions by management that affect the reported amounts of assets,

Table of Contents

liabilities, revenues, expenses and disclosure of contingent assets and liabilities that exist at the date of the unaudited condensed consolidated financial statements. Although these estimates are based on management's available knowledge of current and expected future events, actual results could differ from these estimates.

(d) Identifiable Intangible Assets

As of September 30, 2015, identifiable intangible assets, net consisted of the following (in thousands):

	Customer Relationships	Trade Names	Non-compete Agreement	Total
Net Balance at December 31, 2014	\$ 68,653	\$ 13,104	\$ 600	\$ 82,357
Amortization Expense	(2,051)	(468)	(169)	(2,688)
Net Balance at September 30, 2015	\$ 66,602	\$ 12,636	\$ 431	\$ 79,669

Identifiable intangible assets are amortized using the straight-line method over their estimated useful lives, which is the period over which the assets are expected to contribute directly or indirectly to the Partnership's future cash flows. The estimated useful lives range from 4 to 30 years. Accumulated amortization of intangible assets was \$15.5 million and \$12.8 million as of September 30, 2015 and December 31, 2014, respectively.

The Partnership assesses identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Partnership did not record any impairment of identifiable intangible assets for the three and nine months ended September 30, 2015 or 2014.

(e) Property and Equipment

Property and equipment are carried at cost. Overhauls and major improvements that increase the value or extend the life of compression equipment are capitalized and depreciated over 3 to 5 years. Ordinary maintenance and repairs are charged to cost of operations, exclusive of depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Compression equipment	20 - 25 years
Furniture and fixtures	7 years

Edgar Filing: USA Compression Partners, LP - Form 10-Q

Vehicles and computer equipment	3 - 7 years
Leasehold improvements	5 years

See more information on property and equipment in Note 3 to our unaudited condensed consolidated financial statements.

(f) Impairments of Long-Lived Assets

Long-lived assets with recorded values that are not expected to be recovered through future cash flows are written-down to estimated fair value. An asset shall be tested for impairment when events or circumstances indicate that its carrying value may not be recoverable or will no longer be utilized in the operating fleet. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value exceeds the sum of the undiscounted cash flows associated with the operating fleet, an impairment loss equal to the amount of the carrying value exceeding the fair value of the asset is recognized. The fair value of the asset is measured using quoted market prices or, in the absence of quoted market prices, is based on an estimate of discounted cash flows, the expected net sale proceeds compared to the other similarly configured fleet units the Partnership recently sold or a review of other units recently offered for sale by third parties, or the estimated component value of the equipment the Partnership plans to use.

Refer to Note 3 to our unaudited condensed consolidated financial statements for more detailed information about impairment charges during the three and nine months ended September 30, 2015.

Table of Contents

(g) Fair Value Measurements

Accounting standards on fair value measurements establish a framework for measuring fair value and stipulate disclosures about fair value measurements. The standards apply to recurring and nonrecurring financial and non-financial assets and liabilities that require or permit fair value measurements. Among the required disclosures is the fair value hierarchy of inputs the Partnership uses to value an asset or a liability. The three levels of the fair value hierarchy are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Partnership has the ability to access at the measurement date.

Level 2 inputs are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

As of September 30, 2015 and December 31, 2014, the Partnership's financial instruments consisted primarily of cash and cash equivalents, trade accounts receivable, trade accounts payable and long-term debt. The book values of cash and cash equivalents, trade accounts receivable and trade accounts payable are representative of fair value due to their short-term maturity. The carrying amount of long-term debt approximates fair value due to the floating interest rates associated with the debt.

Phantom unit awards granted to employees under the USA Compression Partners, LP 2013 Long-Term Incentive Plan (the "LTIP") are accounted for as a liability, and such liability is re-measured on a quarterly basis. The liability is based on the publicly quoted price of the Partnership's common units, which is considered a Level 1 input. As of September 30, 2015 and December 31, 2014, the total unit-based compensation liability was \$1.7 million and \$1.3 million, respectively.

(h) Operating Segment

The Partnership operates in a single business segment, the compression services business.

(i) Pass Through Taxes

Sales taxes incurred on behalf of, and passed through to, customers are accounted for on a net basis.

(2) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts, which was \$1.5 million and \$0.4 million at September 30, 2015 and December 31, 2014, respectively, is the Partnership's best estimate of the amount of probable credit losses included in the Partnership's existing accounts receivable. The Partnership determines the allowance based upon historical write-off experience and specific customer circumstances. The Partnership does not have any off-balance-sheet credit exposure related to its customers.

Table of Contents

(3) Property and Equipment

Property and equipment consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Compression equipment	\$ 1,490,233	\$ 1,311,943
Furniture and fixtures	652	619
Automobiles and vehicles	19,076	17,303
Computer equipment	16,528	11,913
Leasehold improvements	1,080	858
Total	1,527,569	1,342,636
Less accumulated depreciation and amortization	(225,015)	(179,999)
Total	\$ 1,302,554	\$ 1,162,637

We recognized \$20.5 million and \$17.4 million of depreciation expense on property and equipment for the three months ended September 30, 2015 and 2014, respectively. We recognized \$60.9 million and \$48.8 million of depreciation expense on property and equipment for the nine months ended September 30, 2015 and 2014, respectively.

As of September 30, 2015 and December 31, 2014, there was \$20.6 million and \$32.4 million, respectively, of property and equipment purchases in accounts payable and accrued liabilities.

During the nine months ended September 30, 2015, non-cash transfers of inventory to and from property and equipment totaled approximately \$1.0 million. These transfers have been treated as non-cash inventory activities in the Unaudited Condensed Consolidated Statements of Cash Flows.

During the nine months ended September 30, 2015, insurance recoveries of \$0.6 million were received on previously impaired compression equipment and are reported within the Loss (gain) on sale of assets line in the Unaudited Condensed Consolidated Statements of Operations.

During the three months ended September 30, 2015, the Partnership incurred equipment damage to one of its fleet units resulting in a \$0.4 million impairment of long-lived assets. During the three months ended June 30, 2015, the Partnership evaluated the future deployment of its idle fleet under current market conditions and determined to retire and either sell or re-utilize the key components of 166 compressor units, or approximately 58,000 horsepower, that were previously used to provide services in the Partnership's business. This compression equipment was written down

to its respective estimated salvage value, measured using quoted market prices, or the estimated component value of the equipment the Partnership plans to use. As a result, the Partnership recorded a \$27.3 million impairment of long-lived assets in the nine months ended September 30, 2015. The Partnership recorded a \$1.2 million impairment of compression equipment for each of the three and nine months ended September 30, 2014.

(4) Accrued Liabilities

Other current liabilities included accrued salaries and benefits and accrued property taxes. The Partnership recognized \$9.6 million and \$5.5 million of accrued salaries and benefits as of September 30, 2015 and December 31, 2014, respectively. The Partnership recognized \$5.9 million and \$4.8 million of accrued property taxes as of September 30, 2015 and December 31, 2014, respectively.

(5) Income Tax Expense

The Partnership is not a taxable entity for U.S. federal income tax purposes or for the majority of states that impose an income tax. Therefore, income taxes are not levied at the entity level, but rather on the individual partners of the Partnership. Accordingly, the accompanying unaudited condensed consolidated financial statements do not include a provision for federal and state income taxes.

The Partnership is subject to the Revised Texas Franchise Tax ("Texas Margin Tax"). The Texas Margin Tax is computed on modified gross margin. The Partnership does not do business in any other state where a similar tax is applied.

Table of Contents

Components of income tax expense are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Current tax expense:				
State income tax	\$ 7	\$ —	\$ 228	\$ 103
Total current tax expense	7	—	228	103
Deferred tax expense:				
State income tax	\$ 1,076	\$ —	\$ 1,076	\$ —
Total deferred tax expense	1,076	—	1,076	—
Total income tax expense	\$ 1,083	\$ —	\$ 1,304	\$ 103