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

Form 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2017
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. 001-33666

ARCHROCK, INC.
(Exact name of registrant as specified in its charter)

Delaware	**74-3204509**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
16666 Northchase Drive **Houston, Texas**	**77060**
(Address of principal executive offices)	(Zip Code)

(281) 836-8000
(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 ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth company ☐

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

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

Number of shares of the common stock of the registrant outstanding as of April 27, 2017: 70,979,540 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARCHROCK, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value and share amounts)
(unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,807	$ 3,134
Accounts receivable, net of allowance of $1,680 and $1,864, respectively	101,251	111,746
Inventory	95,060	93,801
Other current assets	4,839	6,081
Current assets associated with discontinued operations	254	923
Total current assets	212,211	215,685
Property, plant and equipment, net	2,076,409	2,079,099
Intangible assets, net	82,139	86,697
Other long-term assets	26,422	13,224
Long-term assets associated with discontinued operations	19,564	20,074
Total assets	$ 2,416,745	$ 2,414,779
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable, trade	$ 56,086	$ 32,529
Accrued liabilities	65,645	69,639
Deferred revenue	3,458	3,451
Current liabilities associated with discontinued operations	297	909
Total current liabilities	125,486	106,528
Long-term debt	1,436,357	1,441,724
Deferred income taxes	155,035	167,114
Other long-term liabilities	17,994	7,910
Long-term liabilities associated with discontinued operations	6,575	6,575
Total liabilities	1,741,447	1,729,851
Commitments and contingencies (Note 15)		
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; 76,759,965 and 76,162,279 shares issued, respectively	768	762
Additional paid-in capital	3,044,043	3,021,040
Accumulated other comprehensive loss	(1,129)	(1,678)
Accumulated deficit	(2,246,276)	(2,227,214)
Treasury stock — 5,779,998 and 5,626,074 common shares, at cost, respectively	(76,124)	(73,944)
Total Archrock stockholders' equity	721,282	718,966
Noncontrolling interest	(45,984)	(34,038)
Total equity	675,298	684,928
Total liabilities and equity	$ 2,416,745	$ 2,414,779

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

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

	Three Months Ended March 31,	
	2017	**2016**
Revenues:		
Contract operations	$ 149,984	$ 176,239
Aftermarket services	39,901	37,056
	189,885	213,295
Costs and expenses:		
Cost of sales (excluding depreciation and amortization expense):		
Contract operations	64,097	68,179
Aftermarket services	33,732	30,362
Selling, general and administrative	27,553	34,651
Depreciation and amortization	47,772	53,927
Long-lived asset impairment	8,245	9,860
Restatement and other charges	801	—
Restructuring and other charges	457	8,065
Interest expense	21,421	20,300
Debt extinguishment costs	291	—
Other income, net	(794)	(1,989)
	203,575	223,355
Loss before income taxes	(13,690)	(10,060)
Provision for (benefit from) income taxes	323	(3,334)
Net loss	(14,013)	(6,726)
Less: Net loss attributable to the noncontrolling interest	2,328	4,907
Net loss attributable to Archrock stockholders	$ (11,685)	$ (1,819)
Basic loss per common share:		
Net loss attributable to Archrock common stockholders	$ (0.17)	$ (0.03)
Diluted loss per common share:		
Net loss attributable to Archrock common stockholders	$ (0.17)	$ (0.03)
Weighted average common shares outstanding used in loss per common share:		
Basic	69,404	68,833
Diluted	69,404	68,833
Dividends declared and paid per common share	$ 0.1200	$ 0.1875

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

ARCHROCK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(unaudited)

	Three Months Ended March 31,	
	2017	**2016**
Net loss	$ (14,013)	$ (6,726)
Other comprehensive income (loss), net of tax:		
Derivative gain (loss), net of reclassifications to earnings	1,416	(4,237)
Adjustments from changes in ownership of Partnership	—	(6)
Amortization of terminated interest rate swaps	24	52
Total other comprehensive income (loss)	1,440	(4,191)
Comprehensive loss	(12,573)	(10,917)
Less: Comprehensive loss attributable to the noncontrolling interest	1,437	7,693
Comprehensive loss attributable to Archrock stockholders	$ (11,136)	$ (3,224)

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

ARCHROCK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)
(unaudited)

	Archrock, Inc. Stockholders						
	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Accumulated Deficit	Noncontrolling Interest	Total
Balance, January 1, 2016	$ 750	$ 2,944,897	$ (1,570)	$ (72,429)	$ (2,137,738)	$ 53,349	$ 787,259
Treasury stock purchased				(739)			(739)
Cash dividends					(13,052)		(13,052)
Stock-based compensation, net of forfeitures	12	3,113				406	3,531
Income tax expense from stock-based compensation expense		(1,062)					(1,062)
Contribution from Exterran Corporation		5,153					5,153
Partnership units issued in March 2016 Acquisition		600				884	1,484
Cash distribution to noncontrolling unitholders of the Partnership						(20,737)	(20,737)
Comprehensive loss			(1,405)		(1,819)	(7,693)	(10,917)
Balance, March 31, 2016	$ 762	$ 2,952,701	$ (2,975)	$ (73,168)	$ (2,152,609)	$ 26,209	$ 750,920
Balance, January 1, 2017	$ 762	$ 3,021,040	$ (1,678)	$ (73,944)	$ (2,227,214)	$ (34,038)	$ 684,928
Treasury stock purchased				(2,180)			(2,180)
Cash dividends					(8,458)		(8,458)
Stock-based compensation, net of forfeitures	5	2,147				(63)	2,089
Stock options exercised	1	938					939
Contribution from Exterran Corporation		19,709					19,709
Cash distribution to noncontrolling unitholders of the Partnership						(10,446)	(10,446)
Impact of adoption of Accounting Standards Update (ASU) 2016-09		209			1,081		1,290
Comprehensive income (loss)			549		(11,685)	(1,437)	(12,573)
Balance, March 31, 2017	$ 768	$ 3,044,043	$ (1,129)	$ (76,124)	$ (2,246,276)	$ (45,984)	$ 675,298

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

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ARCHROCK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net loss	$ (14,013)	$ (6,726)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	47,772	53,927
Long-lived asset impairment	8,245	9,860
Amortization of deferred financing costs	2,170	1,105
Amortization of debt discount	319	304
Debt extinguishment costs	291	—
Provision for doubtful accounts	369	1,378
Gain on sale of property, plant and equipment	(757)	(443)
Loss on non-cash consideration in March 2016 Acquisition	—	635
Amortization of terminated interest rate swaps	37	80
Interest rate swaps	505	323
Stock-based compensation expense	2,153	3,288
Non-cash restructuring charges	457	3,181
Deferred income tax provision	174	(3,685)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable and notes	10,125	13,508
Inventory	(1,524)	3,595
Other current assets	145	1,823
Accounts payable and other liabilities	(1,575)	(10,110)
Deferred revenue	72	(288)
Other	(223)	(252)
Net cash provided by continuing operations	54,742	71,503
Net cash provided by (used in) discontinued operations	45	(164)
Net cash provided by operating activities	54,787	71,339
Cash flows from investing activities:		
Capital expenditures	(30,915)	(50,600)
Proceeds from sale of property, plant and equipment	5,766	4,177
Payment for March 2016 Acquisition	—	(13,779)
Net cash used in investing activities	(25,149)	(60,202)
Cash flows from financing activities:		
Proceeds from borrowings of long-term debt	810,500	103,500
Repayments of long-term debt	(817,000)	(81,000)
Payments for debt issuance costs	(14,459)	(222)
Payments for settlement of interest rate swaps that include financing elements	(581)	(812)
Proceeds from stock options exercised	939	—
Purchases of treasury stock	(2,180)	(739)
Dividends to Archrock stockholders	(8,458)	(13,052)
Distributions to noncontrolling partners in the Partnership	(10,446)	(20,737)
Contribution from Exterran Corporation	19,720	5,153
Net cash used in financing activities	(21,965)	(7,909)
Net increase in cash and cash equivalents	7,673	3,228
Cash and cash equivalents at beginning of period	3,134	1,563
Cash and cash equivalents at end of period	$ 10,807	$ 4,791
Supplemental disclosure of non-cash transactions:		
Non-cash consideration in March 2016 Acquisition	$ —	$ 3,165
Partnership units issued in March 2016 Acquisition	$ —	$ 1,799

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

ARCHROCK, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Archrock, Inc. (“Archrock,” “our,” “we” or “us”) included herein have been prepared in accordance with accounting principles generally accepted 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, consisting only of normal recurring adjustments, that are necessary to present fairly 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, 2016. That report contains a more comprehensive summary of our accounting policies. The interim results reported herein are not necessarily indicative of results for a full year. Certain prior year amounts have been reclassified to conform to the current year presentation.

Organization

We are a pure play U.S. natural gas contract operations services business and the leading provider of natural gas compression services to customers in the oil and natural gas industry throughout the U.S. and a leading supplier of aftermarket services to customers that own compression equipment in the U.S. We operate in two primary business lines: contract operations and aftermarket services. In our contract operations business line, we use our fleet of natural gas compression equipment to provide operations services to our customers. In our aftermarket services business line, we sell parts and components and provide operations, maintenance, overhaul and reconfiguration services to customers who own compression equipment.

Income (Loss) Attributable to Archrock Common Stockholders Per Common Share

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

Diluted income (loss) attributable to Archrock common stockholders per common share is computed using the weighted average number of shares outstanding adjusted for the incremental common stock equivalents attributed to outstanding options unless their effect would be anti-dilutive.

The following table summarizes net loss attributable to Archrock common stockholders used in the calculation of basic and diluted loss per common share (in thousands):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Net loss attributable to Archrock stockholders	$ (11,685)	$ (1,819)
Less: Net income attributable to participating securities	(154)	(184)
Net loss attributable to Archrock common stockholders	$ (11,839)	$ (2,003)

The following table shows the potential shares of common stock that were included in computing diluted income (loss) attributable to Archrock common stockholders per common share (in thousands):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Weighted average common shares outstanding including participating securities	70,763	70,162
Less: Weighted average participating securities outstanding	(1,359)	(1,329)
Weighted average common shares outstanding — used in basic income (loss) per common share	69,404	68,833
Net dilutive potential common shares issuable:		
On exercise of options	*	—
Weighted average common shares outstanding — used in diluted income (loss) per common share	69,404	68,833

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

The following table shows the potential shares of common stock issuable that were excluded from computing diluted income (loss) attributable to Archrock common stockholders per common share as their inclusion would have been anti-dilutive (in thousands):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Net dilutive potential common shares issuable:		
On exercise of options where exercise price is greater than average market value for the period	311	916
On exercise of options	141	—
Net dilutive potential common shares issuable	452	916

Comprehensive Income (Loss)

Components of comprehensive income (loss) are net income (loss) and all changes in equity during a period except those resulting from transactions with owners. Our accumulated other comprehensive income (loss) consists of changes in the fair value of derivative financial instruments, net of tax, that are designated as cash flow hedges to the extent the hedge is effective, amortization of terminated interest rate swaps and adjustments related to changes in our ownership of Archrock Partners, L.P. (along with its subsidiaries, the “Partnership”).

The following table presents the changes in accumulated other comprehensive loss by component, net of tax, and excluding noncontrolling interest, during the three months ended March 31, 2016 and 2017 (in thousands):

	Derivatives Cash Flow Hedges
Accumulated other comprehensive loss, January 1, 2016	$ (1,570)
Loss recognized in other comprehensive loss, net of tax[1]	(1,730)
Loss reclassified from accumulated other comprehensive loss, net of tax[2]	325
Other comprehensive loss attributable to Archrock stockholders	(1,405)
Accumulated other comprehensive loss, March 31, 2016	$ (2,975)
Accumulated other comprehensive loss, January 1, 2017	$ (1,678)
Gain recognized in other comprehensive income, net of tax[3]	236
Loss reclassified from accumulated other comprehensive income, net of tax[4]	313
Other comprehensive income attributable to Archrock stockholders	549
Accumulated other comprehensive loss, March 31, 2017	$ (1,129)

(1) During the three months ended March 31, 2016, we recognized a loss of $2.5 million and a tax benefit of $0.8 million, in other comprehensive income (loss) related to the change in the fair value of derivative financial instruments.

(2) During the three months ended March 31, 2016, we reclassified a loss of $0.5 million to interest expense and a tax benefit of $0.2 million to provision for (benefit from) income taxes in our condensed consolidated statements of operations from accumulated other comprehensive loss.

(3) During the three months ended March 31, 2017, we recognized a gain of $0.3 million and a tax provision of $0.1 million in other comprehensive income (loss) related to the change in the fair value of derivative financial instruments.

(4) During the three months ended March 31, 2017, we reclassified a loss of $0.5 million to interest expense and a tax benefit of $0.2 million to provision for (benefit from) income taxes in our condensed consolidated statements of operations from accumulated other comprehensive loss.

Financial Instruments

Our financial instruments consist of cash, receivables, payables, interest rate swaps and debt. At March 31, 2017 and December 31, 2016, the estimated fair values of these financial instruments approximated their carrying amounts as reflected in our condensed consolidated balance sheets. The fair value of our fixed rate debt was estimated based on quoted market prices in inactive markets, which are Level 2 inputs. The fair value of our floating rate debt was estimated using a discounted cash flow analysis based on interest rates offered on loans with similar terms to borrowers of similar credit quality, which are Level 3 inputs. See Note 9 ("Fair Value Measurements") for additional information regarding the fair value hierarchy.

The following table summarizes the carrying amount and fair value of our debt as of March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017		December 31, 2016	
	Carrying Amount [1]	Fair Value	Carrying Amount [1]	Fair Value
Fixed rate debt	$ 684,357	$ 698,000	$ 683,577	$ 686,000
Floating rate debt	752,000	754,000	758,147	759,000
Total debt	$ 1,436,357	$ 1,452,000	$ 1,441,724	$ 1,445,000

(1) Carrying amounts are shown net of unamortized debt discounts and unamortized deferred financing costs. See Note 7 ("Long-Term Debt") for further details.

GAAP requires that all derivative instruments (including certain derivative instruments embedded in other contracts) be recognized in the balance sheet at fair value and that changes in such fair values be recognized in income (loss) unless specific hedging criteria are met. Changes in the values of derivatives that meet these hedging criteria will ultimately offset related income effects of the hedged item pending recognition in income.

2. Recent Accounting Developments

Accounting Standards Updates Implemented

On January 1, 2017, we adopted Accounting Standards Update No. 2016-09 ("Update 2016-09"), which simplifies several aspects of the accounting for share-based payment transactions and had the following impacts to our condensed consolidated financial statements:

- Update 2016-09 requires that all prospective excess tax benefits and tax deficiencies should be recognized as income tax benefits and expense. Additionally, Update 2016-09 requires that we recognize previously unrecognized excess tax benefits using a modified retrospective approach. As a result, we recorded a $1.2 million cumulative effect adjustment to retained earnings.

- Update 2016-09 allows companies to make an accounting policy election to either estimate forfeitures or account for forfeitures as they occur. We have elected to account for forfeitures as they occur which we are required to apply on a modified retrospective basis. As a result, we recorded a cumulative effect adjustment to retained earnings of $0.2 million to reverse forfeiture estimates on unvested awards.

- Update 2016-09 also reflects the Financial Accounting Standards Board's ("FASB") decision that cash flows related to excess tax benefits should be classified as cash flows from operating activities on the consolidated statements of cash flows. We adopted this provision on a retrospective basis which resulted in a $0.1 million increase in net cash provided by operating activities and a $0.1 million increase in net cash used in financing activities on the accompanying condensed consolidated statements of cash flows for the three months ended March 31, 2016.

There were no other material impacts to the condensed consolidated financial statements as a result of adoption of Update 2016-09.

On January 1, 2017, we adopted Accounting Standards Update No. 2015-11 ("Update 2015-11') which requires us to measure inventory at the lower of cost and net realizable value, which is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. There was no material impact to the condensed consolidated financial statements as a result of the adoption of this standard.

Accounting Standards Updates Not Yet Implemented

In August 2016, the FASB issued Accounting Standards Update No. 2016-15 ("Update 2016-15") which addresses diversity in practice and simplifies several elements of cash flow classification, including how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Update 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Update 2016-15 will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. Early adoption is permitted. We are currently evaluating the impact of Update 2016-15 on our consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 ("Update 2016-13") that 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. Update 2016-13 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. Entities will apply Update 2016-13 provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We are currently evaluating the impact of Update 2016-13 on our consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 ("Update 2016-02") that establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Under the new guidance, lessor accounting is largely unchanged. Update 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of Update 2016-02 on our consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("Update 2014-09") that outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes the most current revenue recognition guidance, including industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Update 2014-09 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. Update 2014-09 will be effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Early adoption is permitted for reporting periods beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach. In March 2016, the FASB issued Accounting Standards Update No. 2016-08 ("Update 2016-08"), which clarifies the guidance in Update 2014-09 by providing guidance on recording revenue on a gross basis versus a net basis based on the determination of whether an entity is a principal or an agent when another party is involved in providing goods or services to a customer. In April 2016, the FASB issued Accounting Standards Update No. 2016-10 ("Update 2016-10"), clarifying the implementation guidance on identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. Also in April 2016, the FASB issued Accounting Standards Update No. 2016-11 ("Update 2016-11"), rescinding certain paragraphs pertaining to accounting for shipping and handling fees and costs and accounting for consideration given by a vendor to a customer. In May 2016, the FASB issued Accounting Standards Update No. 2016-12 ("Update 2016-12"), clarifying implementation guidance on a few narrow areas and adds some practical expedients to the guidance. Each of these subsequent updates has the same effective date as Update 2014-09.

We are in the process of assessing our customer contracts, identifying contractual provisions that may result in a change in the timing or the amount of revenue recognized in comparison with current guidance, as well as assessing the enhanced disclosure requirements of the new guidance. Under current guidance we generally recognize revenue when service is provided or products are delivered to the customer. Under the proposed requirements, the nature of some of our contractual provisions may result in a change in the timing of recognition and the need to estimate revenue in some cases. In addition, we are also evaluating expenses that will meet the criteria for capitalization and amortization under the updated guidance. We are still determining the materiality of the impact of these changes on our consolidated financial statements as well as the transition method that we will apply. The impacts noted are not all inclusive of the impacts that adoption of the updates will have on our consolidated financial statements but reflect our current expectations. We anticipate adoption of the updated guidance effective January 1, 2018.

3. Discontinued Operations

Spin-off of Exterran Corporation

On November 3, 2015 (the "Distribution Date"), we completed the spin-off (the "Spin-off") of our international contract operations, international aftermarket services and global fabrication businesses into a standalone public company operating as Exterran Corporation. We continue to hold our interests in the Partnership, which include the sole general partner interest and certain limited partner interests, as well as all of the incentive distribution rights in the Partnership. Exterran Corporation's business following the Spin-off has been reported as discontinued operations, net of tax, in our condensed consolidated statement of operations for all periods presented and was previously included in the international contract operations segment, fabrication segment and aftermarket services segment. Following the Spin-off, we no longer operate in the international contract operations or fabrication segments and our operations in the aftermarket services segment are now limited to domestic operations.

In order to effect the Spin-off and govern our relationship with Exterran Corporation after the Spin-off, we entered into several agreements with Exterran Corporation on the Distribution Date, which include but are not limited to:

- The separation and distribution agreement contains the key provisions relating to the separation of our business from Exterran Corporation's business. The separation and distribution agreement identifies the assets and rights that were transferred, liabilities that were assumed or retained and contracts and related matters that were assigned to us or Exterran Corporation in the Spin-off and describes how these transfers, assumptions and assignments occurred. Additionally, the separation and distribution agreement specifies our right to receive payments from a subsidiary of Exterran Corporation based on a notional amount corresponding to payments received by Exterran Corporation's subsidiaries from PDVSA Gas, S.A. ("PDVSA Gas") in respect of the sale of Exterran Corporation's subsidiaries' and joint ventures' previously nationalized assets promptly after such amounts are collected by Exterran Corporation's subsidiaries. During the three months ended March 31, 2017 and 2016, Exterran Corporation received installment payments of $19.7 million and $5.2 million, respectively, from PDVSA Gas relating to these sales and transferred cash to us equal to that amount. Exterran Corporation or its subsidiary was due to receive the remaining principal amount as of March 31, 2017 of approximately $20.9 million. As these remaining proceeds are received, Exterran Corporation intends to contribute to us an amount equal to such proceeds pursuant to the terms of the separation and distribution agreement. The separation and distribution agreement also specifies our right to receive a $25.0 million cash payment from a subsidiary of Exterran Corporation promptly following the occurrence of a qualified capital raise as defined in the Exterran Corporation credit agreement. Such a qualified capital raise occurred on April 4, 2017, when Exterran Corporation completed an issuance of 8.125% Senior Notes. In satisfaction of the separation and distribution agreement, we received a cash payment of $25.0 million on April 11, 2017.

- The tax matters agreement governs the respective rights, responsibilities and obligations of Exterran Corporation and us with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and certain other matters regarding taxes. Subject to the provisions of this agreement Exterran Corporation and we agreed to indemnify the primary obligor of any return for tax periods beginning before and ending before or after the Spin-off (including any ongoing or future amendments and audits for these returns) for the portion of the tax liability (including interest and penalties) that relates to their respective operations reported in the filing. As of March 31, 2017, we classified $6.6 million of unrecognized tax benefits (including interest and penalties) as long-term liability associated with discontinued operations since it relates to operations of Exterran Corporation prior to the Spin-off. We have also recorded an offsetting $6.6 million indemnification asset related to this reserve as long-term assets associated with discontinued operations.

- The transition services agreement sets forth the terms on which Exterran Corporation provides to us, and we provide to Exterran Corporation, on a temporary basis, certain services or functions that the companies historically shared. Each service provided under the agreement has its own duration, generally less than one year and not more than two years, extension terms and monthly cost, and the transition services agreement will terminate upon cessation of all services provided thereunder. For the three months ended March 31, 2016, we recorded other income of $0.3 million and selling, general and administrative expense of $0.6 million associated with the services under the transition services agreement.

- The supply agreement sets forth the terms under which Exterran Corporation provides manufactured equipment, including the design, engineering, manufacturing and sale of natural gas compression equipment, on an exclusive basis to us and the Partnership. This supply agreement has an initial term of two years, subject to certain cancellation conditions, and is extendible for additional one-year terms by mutual agreement of the parties. Pursuant to the supply agreement, we and the Partnership are each required to purchase our respective requirements of newly-manufactured compression equipment from Exterran Corporation, subject to certain exceptions. For the three months ended March 31, 2017 and 2016, we purchased $37.2 million and $19.9 million, respectively, of newly-manufactured compression equipment from Exterran Corporation.

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 Exterran Corporation's business with Exterran Corporation. Pursuant to the separation and distribution agreement, we and Exterran Corporation generally release the other party from all claims arising prior to the Spin-off that relate to the other party's business.

Other discontinued operations activity

In December 2013, we abandoned our contract water treatment business as part of our continued emphasis on simplification and focus on our core businesses. The abandonment of this business meets the criteria established for recognition as discontinued operations under GAAP. Therefore certain deferred tax assets related to our contract water treatment business have been reported as discontinued operations in our condensed consolidated balance sheet. This business was previously included in our contract operations segment.

The following tables summarize the balance sheet data for discontinued operations (in thousands):

	March 31, 2017			December 31, 2016		
	Exterran Corporation	Contract Water Treatment Business	Total	Exterran Corporation	Contract Water Treatment Business	Total
Other current assets	$ 254	$ —	$ 254	$ 923	$ —	$ 923
Total current assets associated with discontinued operations	254	—	254	923	—	923
Other assets, net	6,575	—	6,575	6,575	—	6,575
Deferred income taxes	55	12,934	12,989	54	13,445	13,499
Total assets associated with discontinued operations	$ 6,884	$ 12,934	$ 19,818	$ 7,552	$ 13,445	$ 20,997
Other current liabilities	$ 297	$ —	$ 297	$ 909	$ —	$ 909
Total current liabilities associated with discontinued operations	297	—	297	909	—	909
Deferred income taxes	6,575	—	6,575	6,575	—	6,575
Total liabilities associated with discontinued operations	$ 6,872	$ —	$ 6,872	$ 7,484	$ —	$ 7,484

4. Business Acquisitions

On March 1, 2016, the Partnership completed an acquisition of contract operations customer service agreements with four customers and a fleet of 19 compressor units used to provide compression services under those agreements comprising approximately 23,000 horsepower. The $18.8 million purchase price was funded with $13.8 million in borrowings under the Partnership's revolving credit facility, a non-cash exchange of 24 Partnership compressor units for $3.2 million, and the issuance of 257,000 of the Partnership's common units for $1.8 million. In connection with this acquisition, the Partnership issued and sold to Archrock General Partner, L.P. ("GP"), our wholly-owned subsidiary and the Partnership's general partner, 5,205 general partner units to maintain GP's approximate 2% general partner interest in the Partnership. This acquisition by the Partnership is referred to as the "March 2016 Acquisition." During the three months ended March 31, 2016, the Partnership incurred transaction costs of $0.2 million related to the March 2016 Acquisition, which is reflected in other income, net, in our condensed consolidated statement of operations.

We accounted for the March 2016 Acquisition using the acquisition method, which requires, among other things, assets acquired to be recorded at their fair value on the acquisition date. The following table summarized the purchase price allocation based on estimated fair values of the acquired assets as of the acquisition date (in thousands):

	Fair Value
Property, plant and equipment	$ 14,929
Intangible assets	3,839
Purchase price	$ 18,768

Property, Plant and Equipment and Intangible Assets Acquired

Property, plant and equipment is primarily comprised of compressor units that will be depreciated on a straight-line basis over an estimated average remaining useful life of 15 years.

The amount of finite life intangible assets, and their associated average useful lives, was determined based on the period which the assets are expected to contribute directly or indirectly to our future cash flows, and consisted of the following:

	Amount (in thousands)	Average Useful Life
Contract based	$ 3,839	2.3 years

The results of operations attributable to the assets acquired in the March 2016 Acquisition have been included in our condensed consolidated financial statements as part of our contract operations segment since the date of acquisition.

Pro forma financial information is not presented for the March 2016 Acquisition as it is immaterial to our reported results.

5. Inventory

Inventory consisted of the following amounts (in thousands):

	March 31, 2017	December 31, 2016
Parts and supplies	$ 82,307	$ 80,641
Work in progress	12,753	13,160
Inventory	$ 95,060	$ 93,801

6. Property, Plant and Equipment, net

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

	March 31, 2017	December 31, 2016
Compression equipment, facilities and other fleet assets	$ 3,155,790	$ 3,147,708
Land and buildings	49,009	48,964
Transportation and shop equipment	101,081	102,312
Computer equipment	79,293	79,019
Other	31,722	29,481
Property, plant and equipment	3,416,895	3,407,484
Accumulated depreciation	(1,340,486)	(1,328,385)
Property, plant and equipment, net	$ 2,076,409	$ 2,079,099

7. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Revolving credit facility due November 2020	$ 89,000	$ 99,000
Partnership's revolving credit facility due March 2022	663,000	—
Partnership's revolving credit facility due May 2018	—	509,500
Partnership's term loan facility due May 2018	—	150,000
Less: Deferred financing costs, net of amortization	—	(353)
	—	149,647
Partnership's 6% senior notes due April 2021	350,000	350,000
Less: Debt discount, net of amortization	(3,048)	(3,213)
Less: Deferred financing costs, net of amortization	(4,109)	(4,366)
	342,843	342,421
Partnership's 6% senior notes due October 2022	350,000	350,000
Less: Debt discount, net of amortization	(3,923)	(4,076)
Less: Deferred financing costs, net of amortization	(4,563)	(4,768)
	341,514	341,156
Long-term debt	$ 1,436,357	$ 1,441,724

Archrock Revolving Credit Facility

In October 2015, in connection with the Spin-off, we entered into a five-year, $350.0 million revolving credit facility (the "Credit Facility") and in November 2015, we terminated our former credit facility. The Credit Facility will mature in November 2020. As of March 31, 2017, we had $89.0 million in outstanding borrowings and $10.0 million in outstanding letters of credit under the Credit Facility. At March 31, 2017, taking into account guarantees through letters of credit, we had undrawn capacity of $251.0 million under the Credit Facility. In addition, our Credit Facility limits our Total Debt (as defined in the Credit Facility) to EBITDA ratio (as defined in the Credit Facility) to not greater than 4.25 to 1.0. As a result of this limitation, $142.3 million of the $251.0 million undrawn capacity under the Credit Facility was available for additional borrowings as of March 31, 2017. We are required to pay commitment fees based on the daily unused amount of the Credit Facility in an amount, depending on our leverage ratio, ranging from 0.25% to 0.50%. At March 31, 2017, the applicable margin on amounts outstanding was 1.75%. We incurred $0.2 million and $0.1 million in commitment fees on the daily unused amount of the Credit Facility during the three months ended March 31, 2017 and 2016, respectively.

The Partnership Asset-Based Revolving Credit Facility

On March 30, 2017, the Partnership entered into a five-year, $1.1 billion asset-based revolving credit facility (the "Partnership Credit Facility"). The Partnership Credit Facility will mature on March 30, 2022, except that if any portion of the Partnership's 6% senior notes due April 2021 are outstanding as of December 2, 2020, then the Partnership Credit Facility will instead mature on December 2, 2020. The Partnership incurred approximately $15.0 million in transaction costs related to the Partnership Credit Facility, which were included in other long-term assets and will be amortized over the term of the Partnership Credit Facility. Concurrent with entering into the Partnership Credit Facility, the Partnership terminated its former $825.0 million revolving credit facility and $150.0 million term loan (collectively, the "Former Partnership Credit Facility") and repaid $648.4 million in borrowings and accrued and unpaid interest and fees outstanding. All commitments under the Former Partnership Credit Facility have been terminated. As a result of the termination, we expensed $0.6 million of unamortized deferred financing costs associated with the $825.0 million revolving credit facility, which was included in interest expense in our condensed consolidated statements of operations. Additionally, we recorded a loss of $0.3 million related to the extinguishment of the $150.0 million term loan.

Subject to certain conditions, including the approval by the lenders, the Partnership is able to increase the aggregate commitments under the Partnership Credit Facility by up to an additional $250.0 million. Portions of the Partnership Credit Facility up to $25.0 million and $50.0 million will be available for the issuance of letters of credit and swing line loans, respectively. As of March 31, 2017, the Partnership had $663.0 million in outstanding borrowings and no outstanding letters of credit under the Partnership Credit Facility.

The Partnership Credit Facility bears interest at a base rate or the London Interbank Offered Rate ("LIBOR"), at the Partnership's option, plus an applicable margin. Depending on the Partnership's leverage ratio, the applicable margin varies (i) in the case of LIBOR loans, from 2.00% to 3.25% and (ii) in the case of base rate loans, from 1.00% to 2.25%. The base rate is the highest of (i) the prime rate announced by JP Morgan Chase Bank, (ii) the Federal Funds Effective Rate plus 0.50% and (iii) one-month LIBOR plus 1.00%. Additionally, the Partnership is required to pay commitment fees based on the daily unused amount of the Credit Facility in an amount, depending on its leverage ratio, ranging from 0.375% to 0.50%. At March 31, 2017, the applicable margin on amounts outstanding was 2.25%. The Partnership incurred $0.4 million in commitment fees on the daily unused amount of the Partnership Credit Facility and the former $825.0 million revolving credit facility during the three months ended March 31, 2017 and 2016, respectively.

The Credit Facility borrowing base consists of eligible accounts receivable, inventory and compression units. The largest component is eligible compression units.

Borrowings under the Partnership Credit Facility are secured by substantially all of the personal property assets of the Partnership and its Significant Domestic Subsidiaries (as defined in the Partnership Credit Facility agreement), including all of the membership interests of the Partnership's Domestic Subsidiaries (as defined in the Partnership Credit Facility agreement).

The Partnership Credit Facility agreement contains various covenants including, but not limited to, restrictions on the use of proceeds from borrowings and limitations on the Partnership's ability to incur additional indebtedness, engage in transactions with affiliates, merge or consolidate, sell assets, make certain investments and acquisitions, make loans, grant liens, repurchase equity and pay distributions. The Partnership Credit Facility agreement also contains various covenants requiring mandatory prepayments from the net cash proceeds of certain asset transfers. In addition, if as of any date the Partnership has cash and cash equivalents (other than proceeds from a debt or equity issuance in the 30 days prior to such date reasonably expected to be used to fund an acquisition permitted under the Partnership Credit Facility agreement) in excess of $50.0 million, then such excess amount will be used to pay down outstanding borrowings of a corresponding amount under the Partnership Credit Facility.

The Partnership must maintain various consolidated financial ratios, as defined in the Partnership Credit Facility agreement, including a ratio of earnings before interest, taxes, depreciation and amortization ("EBITDA") to Total Interest Expense of not less than 2.5 to 1.0, a ratio of Senior Secured Debt to EBITDA of not greater than 3.50 to 1.0 and a ratio of Total Debt to EBITDA of not greater than 5.95 to 1.0 through the fourth quarter of 2017, 5.75 to 1.0 through fiscal year 2018, 5.50 to 1.00 through the second quarter of 2019 and 5.25 to 1.0 (subject to a temporary increase to 5.5 to 1.0 for any quarter during which an acquisition meeting certain thresholds is completed and for the following two quarters after the acquisition closes) thereafter. A material adverse effect on the Partnership's assets, liabilities, financial condition, business or operations that, taken as a whole, impacts its ability to perform its obligations under the Partnership Credit Facility agreement, could lead to a default under that agreement. A default under one of the Partnership's debt agreements would trigger cross-default provisions under the Partnership's other debt agreements, which would accelerate its obligation to repay its indebtedness under those agreements. As of March 31, 2017, the Partnership was in compliance with all financial covenants under the Partnership Credit Facility agreement.

As of March 31, 2017, the Partnership had undrawn capacity of $437.0 million under the Partnership Credit Facility. As a result of the requirements discussed above, $293.2 million of the $437.0 million of undrawn capacity was available for additional borrowings as of March 31, 2017.

8. Accounting for Derivatives

We are exposed to market risks associated with changes in interest rates. We use derivative financial instruments to minimize the risks and/or costs associated with financial activities by managing our exposure to interest rate fluctuations on a portion of our debt obligations. We do not use derivative financial instruments for trading or other speculative purposes.

Interest Rate Risk

At March 31, 2017, the Partnership was a party to the following interest rate swaps, which were entered into to offset changes in expected cash flows due to fluctuations in the associated variable interest rates:

Expiration Date	Notional Value (in millions)	
May 2018	$	300
May 2019		100
May 2020		100
	$	500

As of March 31, 2017, the weighted average effective fixed interest rate on the interest rate swaps was 1.6%. We have designated these interest rate swaps as cash flow hedging instruments so that any change in their fair values is recognized as a component of comprehensive income (loss) and is included in accumulated other comprehensive income (loss) to the extent the hedge is effective. As the swap terms substantially coincide with the hedged item and are expected to offset changes in expected cash flows due to fluctuations in the variable rate, we currently do not expect a significant amount of ineffectiveness on these hedges. We perform quarterly calculations to determine whether the swap agreements are still effective and to calculate any ineffectiveness. We recorded an immaterial amount of interest expense during the three months ended March 31, 2017 and 2016 due to ineffectiveness related to interest rate swaps. We estimate that $2.5 million of deferred pre-tax losses attributable to interest rate swaps and included in our accumulated other comprehensive income (loss) at March 31, 2017, will be reclassified into earnings as interest expense at then current values during the next twelve months as the underlying hedged transactions occur. Cash flows from derivatives designated as hedges are classified in our condensed consolidated statements of cash flows under the same category as the cash flows from the underlying assets, liabilities or anticipated transactions, unless the derivative contract contains a significant financing element; in this case, the cash settlements for these derivatives are classified as cash flows from financing activities in our condensed consolidated statements of cash flows.

The following tables present the effect of derivative instruments on our consolidated financial position and results of operations (in thousands):

		Fair Value Asset (Liability)			
	Balance Sheet Location	March 31, 2017		December 31, 2016	
Derivatives designated as hedging instruments:					
Interest rate swaps	Other long-term assets	$	538	$	413
Interest rate swaps	Accrued liabilities		(1,928)		(3,226)
Interest rate swaps	Other long-term liabilities		(80)		(377)
Total derivatives		$	(1,470)	$	(3,190)

	Pre-tax Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives		Location of Pre-tax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)	Pre-tax Loss Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)	
Derivatives designated as cash flow hedges:					
Interest rate swaps					
Three months ended March 31, 2017	$	699	Interest expense	$	(1,013)
Three months ended March 31, 2016		(5,932)	Interest expense		(1,116)

The counterparties to the derivative agreements are major financial institutions. We monitor the credit quality of these financial institutions and do not expect non-performance by any counterparty, although such non-performance could have a material adverse effect on us. The Partnership has no specific collateral posted for its derivative instruments.

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 broad 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.

The following table presents our assets and liabilities measured at fair value on a recurring basis as of March 31, 2017 and December 31, 2016, with pricing levels as of the date of valuation (in thousands):

	March 31, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Interest rate swaps asset	$ —	$ 538	$ —	$ —	$ 413	$ —
Interest rate swaps liability	—	(2,008)	—	—	(3,603)	—

On a quarterly basis, the interest rate swaps are recorded at fair value utilizing a combination of the market approach and income approach to estimate fair value based on forward LIBOR curves.

The following table presents our assets and liabilities measured at fair value on a nonrecurring basis as of March 31, 2017 and December 31, 2016, with pricing levels as of the date of valuation (in thousands):

	March 31, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Impaired long-lived assets	$ —	$ —	$ 405	$ —	$ —	$ 6,460

Our estimate of the impaired long-lived assets' fair value was primarily based on either 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, or the estimated component value of the equipment we plan to use. We discounted the expected proceeds, net of selling and other carrying costs, using a weighted average disposal period of four years.

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.

During the three months ended March 31, 2017 and 2016, we reviewed the future deployment of our idle compression assets for units that were not of the type, configuration, condition, make or model that are cost efficient to maintain and operate. Based on these reviews, we determined that certain idle compressor units would be retired from the active fleet. The retirement of these units from the active fleet triggered a review of these assets for impairment, and as a result of our review, we recorded an asset impairment to reduce the book value of each unit to its estimated fair value. The fair value of each unit was estimated based on either 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, or the estimated component value of the equipment we plan to use.

The following table presents the results of our impairment review for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
Retired idle compressor units within the active fleet	80	80
Horsepower of retired idle compressor units within the active fleet	28,000	33,000
Impairment recorded on retired idle compressor units within the active fleet (in millions)	$ 8.2	$ 9.9

11. Restructuring and Other Charges

As discussed in Note 3 (“Discontinued Operations”), we completed the Spin-off of Exterran Corporation on November 3, 2015. During the three months ended March 31, 2017, and 2016, we incurred $0.5 million and $1.1 million, respectively, of costs associated with the Spin-off that were directly attributable to Archrock and are summarized below. The restructuring charges associated with the Spin-off are not directly attributable to our reportable segments because they primarily represent costs incurred within the corporate function. As of March 31, 2017, we had an accrued liability of $0.2 million related to retention benefits incurred. We expect to incur an additional $1.1 million for the remainder of 2017.

In the first quarter of 2016, we determined to undertake a cost reduction program to reduce our on-going operating expenses, including workforce reductions and closure of certain make-ready shops. These actions were a result of our review of our businesses and efforts to efficiently manage cost and maintain our businesses in line with then current and expected activity levels and anticipated make-ready demand in the U.S. market. During the three months ended March 31, 2016, we incurred $7.0 million of restructuring and other charges as a result of this plan primarily related to severance benefits and consulting fees. These charges are reflected as restructuring and other charges in our condensed consolidated statement of operations. The cost reduction program under this plan was completed during the fourth quarter of 2016.

The following table presents the expense incurred under this plan by reportable segment (in thousands):

	Contract Operations	Aftermarket Services	Other (1)	Total
Three months ended March 31, 2016	$ 2,241	$ 369	$ 4,391	$ 7,001

(1) Represents expenses incurred under this plan that are not directly attributable to our reportable segments because they represent severance benefits and consulting fees incurred within the corporate function.

The following table summarizes the changes to our accrued liability balance related to restructuring and other charges for the three months ended March 31, 2016 and 2017 (in thousands):

	Spin-off	Cost Reduction Plan	Total
Balance at January 1, 2016	$ 855	$ —	$ 855
Additions for costs expensed	1,064	7,001	8,065
Less: non-cash expense [(1)]	(330)	—	(330)
Reductions for payments	(1,005)	(4,496)	(5,501)
Ending balance at March 31, 2016	$ 584	$ 2,505	$ 3,089
Balance at January 1, 2017	$ 712	$ —	$ 712
Additions for costs expensed	457	—	457
Less: non-cash expense [(1)]	(340)	—	(340)
Reductions for payments	(606)	—	(606)
Balance at March 31, 2017	$ 223	$ —	$ 223

(1) Represents non-cash retention benefits associated with the Spin-off to be settled in Archrock stock.

The following table summarizes the components of charges included in restructuring and other charges in our condensed consolidated statements of operations for the three months ended March 31, 2017 and 2016 (in thousands):

	Three Months Ended March 31,	
	2017	2016
Retention and severance benefits	$ 457	$ 5,324
Consulting services	—	2,741
Total restructuring and other charges	$ 457	$ 8,065

12. Income Taxes

Recent appellate court decisions have required us to remeasure certain of our uncertain tax positions. Consequently, we increased our unrecognized tax benefit for these positions during the three months ended March 31, 2017. We had $19.6 million and $9.7 million of unrecognized tax benefits at March 31, 2017 and December 31, 2016, respectively, of which $15.3 million and $9.7 million, respectively, would affect the effective tax rate if recognized. We also recorded $1.0 million and $0.2 million of potential interest expense and penalties related to unrecognized tax benefits associated with uncertain tax positions as of March 31, 2017 and December 31, 2016, respectively. In addition, our income tax provision reflects a federal benefit of $1.8 million and a deferred state release of $4.3 million related to the increase in our unrecognized tax benefit.

13. Stock-Based Compensation

Stock Incentive Plan

In April 2013, we adopted the Archrock, Inc. 2013 Stock Incentive Plan (the “2013 Plan”) to provide for the granting of stock options, restricted stock, restricted stock units, stock appreciation rights, performance units, other stock-based awards and dividend equivalent rights to employees, directors and consultants of Archrock. Under the 2013 Plan, the maximum number of shares of common stock available for issuance pursuant to awards is 10,100,000. Each option and stock appreciation right granted counts as one share against the aggregate share limit, and any share subject to a stock settled award other than a stock option, stock appreciation right or other award for which the recipient pays intrinsic value counts as 1.75 shares against the aggregate share limit. Shares subject to awards granted under the 2013 Plan that are subsequently canceled, terminated, settled in cash or forfeited (excluding shares withheld to satisfy tax withholding obligations or to pay the exercise price of an option) are, to the extent of such cancellation, termination, settlement or forfeiture, available for future grant under the 2013 Plan. Cash-settled awards are not counted against the aggregate share limit. No additional grants may be made under the Archrock, Inc. 2007 Amended and Restated Stock Incentive Plan (the “2007 Plan”). Previous grants made under the 2007 Plan will continue to be governed by that plan and the applicable award agreements.

Stock Options

Stock options are granted at fair market value at the grant date, are exercisable according to the vesting schedule established by the compensation committee of our board of directors in its sole discretion and expire no later than seven years after the grant date. Stock options generally vest one-third per year on each of the first three anniversaries of the grant date, subject to continued service through the applicable vesting date.

The following table presents stock option activity during the three months ended March 31, 2017:

	Stock Options (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding, January 1, 2017	747	$ 16.88		
Granted	—	—		
Exercised	(76)	12.34		
Canceled	(40)	14.48		
Options outstanding, March 31, 2017	631	17.57	2.0	$ 1,481
Options exercisable, March 31, 2017	631	17.57	2.0	1,481

Intrinsic value is the difference between the market value of our stock and the exercise price of each stock option multiplied by the number of stock options outstanding for those stock options where the market value exceeds their exercise price. The total intrinsic value of stock options exercised during the three months ended March 31, 2017 was $0.2 million.

Restricted Stock, Stock-Settled Restricted Stock Units, Performance Units, Cash-Settled Restricted Stock Units and Cash-Settled Performance Units

For grants of restricted stock, restricted stock units and performance units, we recognize compensation expense over the vesting period equal to the fair value of our common stock at the grant date. Our restricted stock and certain of our restricted stock units and performance units include rights to receive dividends or dividend equivalents. We remeasure the fair value of cash-settled restricted stock units and cash-settled performance units and record a cumulative adjustment of the expense previously recognized. Our obligation related to the cash-settled restricted stock units and cash-settled performance units is reflected as a liability in our condensed consolidated balance sheets. Restricted stock, stock-settled restricted stock units, cash-settled restricted stock units and cash-settled performance units generally vest one-third per year on dates as specified in the applicable award agreement, subject to continued service through the applicable vesting date. Stock-settled performance units cliff vest at the end of the performance period as specified in the terms of the applicable award agreement, subject to continued service through the applicable vesting date.

The following table presents restricted stock, restricted stock unit, performance unit, cash-settled restricted stock unit and cash-settled performance unit activity during the three months ended March 31, 2017:

	Shares (in thousands)	Weighted Average Grant-Date Fair Value Per Share
Non-vested awards, January 1, 2017	1,612	$ 10.08
Granted	725	13.24
Vested	(634)	12.19
Non-vested awards, March 31, 2017 (1)	1,703	10.64

(1) Non-vested awards as of March 31, 2017 are comprised of 285,000 cash-settled restricted stock units and cash-settled performance units and 1,418,000 restricted shares and stock-settled restricted stock units.

As of March 31, 2017, we expect $17.6 million of unrecognized compensation cost related to unvested restricted stock, stock-settled restricted stock units, performance units, cash-settled restricted stock units and cash-settled performance units to be recognized over the weighted-average period of 2.4 years.

Partnership Long-Term Incentive Plan

In April 2017, the Partnership adopted the Archrock Partners, L.P. 2017 Long-Term Incentive Plan (the "2017 Partnership LTIP") to provide for the benefit of employees, directors and consultants of the Partnership, us and our respective affiliates. Two million common units have been authorized for issuance with respect to awards under the 2017 Partnership LTIP. The 2017 Partnership LTIP provides for the issuance of unit options, unit appreciation rights, restricted units, phantom units, performance awards, bonus awards, distribution equivalent rights, cash awards and other unit based awards. The Partnership Plan will be administered by the board of directors of Archrock GP LLC, the general partner of the Partnership's general partner, or a committee thereof. The Partnership's Long-Term Incentive Plan adopted in October 2006 (the "2006 Partnership LTIP") expired in 2016 and as such no further grants can be made under that plan. Previous grants made under the 2006 Partnership LTIP will continue to be governed by the 2006 Partnership LTIP and the applicable award agreements.

Phantom units are notional units that entitle the grantee to receive common units upon the vesting of such phantom units or, at the discretion of the Partnership Plan Administrator, cash equal to the fair market value of such common units. Phantom units granted under the Partnership Plan may include nonforfeitable tandem distribution equivalent rights to receive cash distributions on unvested phantom units in the quarter in which distributions are paid on common units. For grants of phantom units, we recognize compensation expense over the vesting period equal to the fair value of the Partnership's common units at the grant date. Phantom units generally vest one-third per year on dates as specified in the applicable award agreements subject to continued service through the applicable vesting date.

Partnership Phantom Units

The following table presents phantom unit activity during the three months ended March 31, 2017:

	Phantom Units (in thousands)	Weighted Average Grant-Date Fair Value per Unit
Phantom units outstanding, January 1, 2017	197	$ 11.60
Granted	—	—
Vested	(79)	14.65
Phantom units outstanding, March 31, 2017	118	9.58

As of March 31, 2017, we expect $1.1 million of unrecognized compensation cost related to unvested phantom units to be recognized over the weighted-average period of 1.7 years.

14. Cash Dividends

The following table summarizes our dividends per common share:

Declaration Date	Payment Date	Dividends per Common Share	Total Dividends
January 26, 2016	February 16, 2016	$ 0.1875	$ 13.1 million
May 2, 2016	May 18, 2016	0.0950	6.7 million
July 27, 2016	August 16, 2016	0.0950	6.7 million
October 31, 2016	November 17, 2016	0.1200	8.4 million
January 19, 2017	February 15, 2017	0.1200	8.5 million

On April 26, 2017, our board of directors declared a quarterly dividend of $0.12 per share of common stock to be paid on May 16, 2017 to stockholders of record at the close of business on May 9, 2017. Any future determinations to pay cash dividends to our stockholders will be at the discretion of our board of directors and will be dependent upon our financial condition and results of operations, credit and loan agreements in effect at that time and other factors deemed relevant by our board of directors.

15. Commitments and Contingencies

Performance Bonds

In the normal course of business we have issued performance bonds to various state authorities that ensure payment of our obligations. We have also issued a bond to protect our 401(k) retirement plan against losses caused by acts of fraud or dishonesty. The bonds have expiration dates in 2017 through the first quarter of 2020 and maximum potential future payments of $2.3 million. As of March 31, 2017, we were in compliance with all obligations to which the performance bonds pertain.

Tax Matters

We are subject to a number of state and local 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. We accrued $1.5 million for the outcomes of non-income based tax audits as of March 31, 2017 and December 31, 2016, respectively. 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 believe the likelihood is remote that the impact of potential unasserted claims from non-income based tax audits could be material to our consolidated financial position, but it is possible that the resolution of future audits could be material to our consolidated results of operations or cash flows for the period in which the resolution occurs.

Subject to the provisions of the tax matters agreement between Exterran Corporation and us, both parties agreed to indemnify the primary obligor of any return for tax periods beginning before and ending before or after the Spin-off (including any ongoing or future amendments and audits for these returns) for the portion of the tax liability (including interest and penalties) that relates to their respective operations reported in the filing. We recorded a $1.7 million indemnification liability (including penalties and interest) related to non-income based tax audits as of March 31, 2017 and December 31, 2016, respectively.

Insurance Matters

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 and commercial automobile liability and other coverage we believe is appropriate. In addition, we have a minimal amount of insurance on our offshore assets. 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.

Indemnification Obligations

On November 3, 2015, we completed the Spin-off of our international contract operations, international aftermarket services and global fabrication businesses into a separate, publicly traded company operating as Exterran Corporation. In connection with the Spin-off, we entered into a separation and distribution agreement, which provides for cross-indemnities between Exterran Corporation's operating subsidiary and us and established procedures for handling claims subject to indemnification and related matters. 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 Exterran Corporation's business with Exterran Corporation. Pursuant to the separation and distribution agreement, we and Exterran Corporation will generally release the other party from all claims arising prior to the Spin-off that relate to the other party's business.

Litigation and Claims

In 2011, the Texas Legislature enacted changes related to the appraisal of natural gas compressors for ad valorem tax purposes by expanding the definitions of "Heavy Equipment Dealer" and "Heavy Equipment" effective from the beginning of 2012 (the "Heavy Equipment Statutes"). Under the revised statutes, we believe we are a Heavy Equipment Dealer, that our natural gas compressors are Heavy Equipment and that we, therefore, are required to file our ad valorem taxes under this new methodology. We further believe that our natural gas compressors are taxable under the Heavy Equipment Statutes in the counties where we maintain a business location and keep natural gas compressors instead of where the compressors may be located on January 1 of a tax year. As a result of this new methodology, our ad valorem tax expense (which is reflected in our condensed consolidated statements of operations as a component of cost of sales (excluding depreciation and amortization expense)) includes a benefit of $4.2 million during the quarter ended March 31, 2017. Since the change in methodology became effective in 2012, we have recorded an aggregate benefit of $64.9 million as of March 31, 2017, of which approximately $13.7 million has been agreed to by a number of appraisal review boards and county appraisal districts and $51.2 million has been disputed and is currently in litigation. A large number of appraisal review boards denied our position, although some accepted it, and our wholly-owned subsidiary, Archrock Services Leasing LLC, formerly known as EES Leasing LLC ("EES Leasing"), and Archrock Partners' subsidiary, Archrock Partners Leasing LLC, formerly known as EXLP Leasing LLC ("EXLP Leasing") filed 176 petitions for review in the appropriate district courts with respect to the 2012 tax year, 109 petitions for review in the appropriate district courts with respect to the 2013 tax year, 115 petitions for review in the appropriate district courts with respect to the 2014 tax year, 120 petitions for review in the appropriate district courts with respect to the 2015 tax year, and 113 petitions for review in the appropriate district courts with respect to the 2016 tax year.

To date, only five cases have advanced to the point of trial or submission of summary judgment motions on the merits, and only three cases have been decided, with two of the decisions having been rendered by the same presiding judge. All three of those decisions were appealed, and all three of the appeals have been decided by intermediate appellate courts.

On October 17, 2013, the 143rd Judicial District Court of Loving County, Texas ruled in *EXLP Leasing LLC & EES Leasing LLC v. Loving County Appraisal District* that EES Leasing and EXLP Leasing are Heavy Equipment Dealers and that their compressors qualify as Heavy Equipment, but the district court further held that the Heavy Equipment Statutes were unconstitutional as applied to EES Leasing's and EXLP Leasing's compressors. EES Leasing and EXLP Leasing appealed the district court's constitutionality holding to the Eighth Court of Appeals in El Paso, Texas. On September 23, 2015, the Eighth Court of Appeals ruled in EES Leasing's and EXLP Leasing's favor by overruling the 143rd District Court's constitutionality ruling. The Eighth Court of Appeals also ruled, however, that EES Leasing's and EXLP Leasing's natural gas compressors are taxable in the counties where they were located on January 1 of the tax year at issue.

On October 28, 2013, the 143rd Judicial District Court of Ward County, Texas ruled in *EES Leasing LLC & EXLP Leasing LLC v. Ward County Appraisal District* that EES Leasing and EXLP Leasing are Heavy Equipment Dealers and that their compressors qualify as Heavy Equipment, but the court held that the Heavy Equipment Statutes were unconstitutional as applied to their compressors. EES Leasing and EXLP Leasing appealed the district court's constitutionality holding to the Eighth Court of Appeals in El Paso, Texas, and the Ward County Appraisal District cross-appealed the district court's rulings that EES Leasing's and EXLP Leasing's compressors qualify as Heavy Equipment. On September 23, 2015, the Eighth Court of Appeals ruled in EES Leasing's and EXLP Leasing's favor by overruling the 143rd District Court's constitutionality ruling and affirming its ruling that EES Leasing's and EXLP Leasing's compressors qualify as Heavy Equipment.

The Eighth Court of Appeals also ruled, however, that EES Leasing's and EXLP Leasing's natural gas compressors are taxable in the counties where they were located on January 1 of the tax year at issue. The Ward County Appraisal District and Loving County Appraisal District each filed (on January 27, 2016 and February 10, 2016, respectively) a petition asking the Texas Supreme Court to review its respective Eighth Court of Appeals decision. On March 11, 2016, EES Leasing and EXLP Leasing filed responses to the appraisal districts' petitions and cross-petitions for review in each case asking the Texas Supreme Court to also review the Eighth Court of Appeals' determination that natural gas compressors are taxable in the counties where they were located on January 1 of the tax year at issue. The Ward County Appraisal District filed its response to EES Leasing's and EXLP Leasing's cross-petition on June 6, 2016, and EES Leasing and EXLP Leasing filed their reply on June 21, 2016. The Loving County Appraisal District filed its response to EES Leasing's and EXLP Leasing's cross-petition on May 27, 2016, and EES Leasing and EXLP Leasing filed their reply on June 10, 2016.

On March 18, 2014, the 10th Judicial District Court of Galveston, Texas ruled in *EXLP Leasing LLC & EES Leasing LLC v. Galveston Central Appraisal District* that EES Leasing and EXLP Leasing are Heavy Equipment Dealers and that their compressors qualify as Heavy Equipment, but the court held the Heavy Equipment Statutes unconstitutional as applied to their compressors. EES Leasing and EXLP Leasing appealed the district court's constitutionality holding to the Fourteenth Court of Appeals in Houston, Texas. On August 25, 2015, the Fourteenth Court of Appeals issued a ruling stating that EES Leasing's and EXLP Leasing's compressors are taxable in the counties where they were located on January 1 of the tax year at issue, and it remanded the case to the district court for further evidence on the issue of whether the Heavy Equipment Statutes are constitutional as applied to EES Leasing's and EXLP Leasing's compressors. On November 24, 2015, EES Leasing and EXLP Leasing filed a petition asking the Texas Supreme Court to review this decision. On March 21, 2016, the Galveston Central Appraisal District filed a response to EES Leasing's and EXLP Leasing's petition for review, and EES Leasing and EXLP Leasing filed their reply on April 26, 2016.

In *EES Leasing v. Irion County Appraisal District*, EES Leasing and the appraisal district each filed motions for summary judgment in the 51st Judicial District Court of Irion County, Texas (the "51st District Court") concerning the applicability and constitutionality of the Heavy Equipment Statutes. On May 20, 2014, the district court entered an order denying both motions for summary judgment, holding that a fact issue existed as to the applicability of the Heavy Equipment Statutes to the one compressor at issue. The presiding judge for the 51st District Court has since consolidated the 2012 tax year case with EES Leasing's 2013 tax year case, which also included EXLP Leasing as a party. On August 27, 2015, the presiding judge abated the combined case, *EES Leasing LLC and EXLP Leasing LLC v. Irion County Appraisal District*, until the final resolution of the appellate cases considering the constitutionality of the Heavy Equipment Statutes, or further order of the court.

EES Leasing and EXLP Leasing also filed a motion for summary judgment in *EES Leasing LLC & EXLP Leasing LLC v. Harris County Appraisal District*, pending in the 189th Judicial District Court of Harris County, Texas. The court heard arguments on the motion on December 6, 2013 but has yet to rule. No trial date has been set.

On June 3, 2015, the Fourth Court of Appeals in San Antonio, Texas issued a decision reversing the 406th District Court's dismissal of EES Leasing's and EXLP Leasing's tax appeals for want of jurisdiction. In EXLP Leasing LLC et. al v. Webb County Appraisal District, United Independent School District ("United ISD") intervened as a party in interest and sought to dismiss the lawsuit arguing that the district court was without jurisdiction to hear the appeal. Under Section 42.08(b) of the Texas Tax Code, a property owner must pay before the delinquency date the lesser of (1) the amount of taxes due on the portion of the taxable value of the property that is not in dispute or (2) the amount of taxes due on the property under the order from which the appeal is taken. EES Leasing and EXLP Leasing paid zero taxes to Webb County because the entire amount of tax assessed by Webb County was in dispute. Instead, as required by the Heavy Equipment Statutes and Texas Comptroller forms, EES Leasing and EXLP Leasing paid taxes on the compressors at issue to Victoria County, where they maintain their place of business and keep natural gas compressors. The Webb County Appraisal District and United ISD contested EES Leasing's and EXLP Leasing's position that the Heavy Equipment Statutes contain situs provisions requiring that taxes be paid where the dealer has a business location and keeps its natural gas compressors, instead arguing that taxes are payable to the county where each compressor is located as of January 1 of the tax year at issue. The district court granted United ISD's motion to dismiss on April 1, 2014 and declined EES Leasing's and EXLP Leasing's motion to reconsider. The Fourth Court of Appeals reversed, holding that, based on the plain meaning of Section 42.08(b)(1), and because the entire amount was in dispute, ESS Leasing and EXLP Leasing were not required to prepay disputed taxes to invoke the trial court's jurisdiction. The Fourth Court of Appeals denied United ISD's request for a rehearing. On September 29, 2015, United ISD filed a petition for review in the Texas Supreme Court. On December 4, 2015, the Texas Supreme Court denied United ISD's petition for review.

United ISD has four delinquency lawsuits pending against EES Leasing and EXLP Leasing in the 49th District Court of Webb County, Texas. The cases have been abated pending the resolution of EES Leasing's and EXLP Leasing's 2012 tax year case pending in the 406th Judicial District Court of Webb County, Texas.

On September 2, 2016, the Texas Supreme Court requested that consolidated merits briefs be filed in EES Leasing's and EXLP Leasing's cases against the Loving County Appraisal District, Ward County Appraisal District, and Galveston Central Appraisal District, as well as two similar cases involving different taxpayers. On September 19, 2016, the Supreme Court entered a consolidated briefing schedule for the five cases. Consolidated briefing was completed on February 7, 2017.

On March 10, 2017, the Texas Supreme Court granted EXLP Leasing's and EES Leasing's petition for review in *EXLP Leasing LLC & EES Leasing LLC v. Galveston Central Appraisal District*. Oral argument has not yet been scheduled.

We continue to believe that the revised statutes are constitutional as applied to natural gas compressors and that under the revised statutes our natural gas compressors are taxable in the counties where we maintain a business location and keep natural gas compressors. Recognizing the similarity of the issues and that these cases will ultimately be resolved by the Texas appellate courts, most of the remaining 2012-2016 district court cases have been formally or effectively abated pending a decision from the Texas Supreme Court.

If we are unsuccessful in our litigation, we would be required to pay ad valorem taxes up to the aggregate benefit we have recorded, and the additional ad valorem tax payments may also be subject to substantial penalties and interest. In addition, while we do not expect the ultimate determination of the issue of where the natural gas compressors are taxable under the Heavy Equipment Statutes would have an impact on the amount of taxes due, we could be subject to substantial penalties if we are unsuccessful on this issue. Also, if we are unsuccessful in our litigation, or if legislation is enacted in Texas that repeals or alters the Heavy Equipment Statutes such that in the future we do not qualify as a Heavy Equipment Dealer or our compressors do not qualify as Heavy Equipment, then we would likely be required to pay these ad valorem taxes under the old methodology going forward, which would increase our quarterly cost of sales expense up to approximately the amount of our then most recent quarterly benefit recorded. If this litigation is resolved against us in whole or in part, or if in the future we do not qualify as a Heavy Equipment Dealer or our compressors do not qualify as Heavy Equipment because of new or revised Texas statutes, we will incur additional taxes and could be subject to substantial penalties and interest, which would impact our future results of operations, financial condition and cash flows and also our ability to pay dividends in the future.

In the ordinary course of business, we are also involved in various other 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 other actions will not have a material adverse effect on our condensed consolidated 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 consolidated financial position, results of operations or cash flows.

In addition, Exterran Corporation has disclosed that it has been cooperating with the SEC in an investigation, including responding to a subpoena for documents related to the restatement of its consolidated and combined financial statements and related disclosures and compliance with the U.S. Foreign Corrupt Practices Act, which are also being provided to the U.S. Department of Justice at its request. Archrock has been assisting Exterran Corporation in responding to this investigation, including providing information regarding periods prior to the Spin-off that is not otherwise in Exterran Corporation's possession, and has been in communications with the SEC staff regarding this matter.

16. Reportable Segments

We manage our business segments primarily based upon the type of product or service provided. We have two reportable segments which we operate within the U.S.: contract operations and aftermarket services. The contract operations segment primarily provides natural gas compression services to meet specific customer requirements. The aftermarket services segment provides a full range of services to support the compression needs of customers, from part sales and normal maintenance services to full operation of a customer's owned assets.

We evaluate the performance of our segments based on gross margin for each segment. Revenue includes only sales to external customers.

The following table presents revenue and other financial information by reportable segment during the three months ended March 31, 2017 and 2016 (in thousands):

Three Months Ended	Contract Operations	Aftermarket Services	Reportable Segments Total
March 31, 2017:			
Revenue from external customers	$ 149,984	$ 39,901	$ 189,885
Gross margin	85,887	6,169	92,056
March 31, 2016:			
Revenue from external customers	$ 176,239	$ 37,056	$ 213,295
Gross margin	108,060	6,694	114,754

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

	Three Months Ended March 31,	
	2017	2016
Total gross margin	$ 92,056	$ 114,754
Less:		
Selling, general and administrative	27,553	34,651
Depreciation and amortization	47,772	53,927
Long-lived asset impairment	8,245	9,860
Restatement and other charges	801	—
Restructuring and other charges	457	8,065
Interest expense	21,421	20,300
Debt extinguishment costs	291	—
Other income, net	(794)	(1,989)
Loss before income taxes	$ (13,690)	$ (10,060)

17. Transactions Related to the Partnership

At March 31, 2017, Archrock owned an approximately 45% interest in the Partnership. As of March 31, 2017, the Partnership's fleet included 6,105 compressor units comprising approximately 3.3 million horsepower, or 86% of our and the Partnership's combined total horsepower.

The liabilities recognized as a result of consolidating the Partnership do not necessarily represent additional claims on the general assets of Archrock outside of the Partnership; rather, they represent claims against the specific assets of the consolidated Partnership. Conversely, assets recognized as a result of consolidating the Partnership do not necessarily represent additional assets that could be used to satisfy claims against Archrock's general assets. There are no restrictions on the Partnership's assets that are reported in Archrock's general assets.

On April 26, 2017, the board of directors of Archrock GP LLC, the general partner of the Partnership's general partner, approved a cash distribution by the Partnership of $0.2850 per limited partner unit, or approximately $19.1 million. Of the total distribution the Partnership will pay us approximately $8.7 million with respect to our common unit and general partner interest in the Partnership. The distribution covers the period from January 1, 2017 through March 31, 2017. The record date for this distribution is May 9, 2017 and payment is expected to occur on May 15, 2017.

On March 4, 2017, the Partnership issued and sold to Archrock General Partner, L.P. ("GP"), our wholly owned subsidiary and the Partnership's general partner, 1,119 general partner units to maintain GP's approximate 2% general partner interest in the partnership.

On March 1, 2016, the Partnership completed the March 2016 Acquisition. A portion of the $18.8 million purchase price was funded through the issuance of 257,000 of the Partnership's common units for $1.8 million. In connection with this acquisition, the Partnership issued and sold to Archrock General Partner, L.P. ("GP"), our wholly-owned subsidiary and the Partnership's general partner, 5,205 general partner units to maintain GP's approximate 2% general partner interest in the Partnership. See Note 4 ("Business Acquisitions") for additional information. As a result, adjustments were made to noncontrolling interest, accumulated other comprehensive income (loss), deferred income taxes and additional paid-in capital to reflect our new ownership percentage in the Partnership.

The following table presents the effects of changes from net loss attributable to Archrock stockholders and changes in our equity interest of the Partnership on our equity attributable to Archrock stockholders (in thousands):

	Three Months Ended March 31,	
	2017	2016
Net loss attributable to Archrock stockholders	$ (11,685)	$ (1,819)
Increase in Archrock stockholders' additional paid-in capital for change in ownership of Partnership units	—	600
Change from net loss attributable to Archrock stockholders and transfers to/from the noncontrolling interest	$ (11,685)	$ (1,219)

18. Subsequent Events

The separation and distribution agreement entered into with Exterran Corporation in relation to the Spin-off specifies our right to receive a $25.0 million cash payment from a subsidiary of Exterran Corporation promptly following the occurrence of a qualified capital raise as defined in the Exterran Corporation credit agreement. Such a qualified capital raise occurred on April 4, 2017, when Exterran Corporation completed an issuance of 8.125% Senior Notes. In satisfaction of the separation and distribution agreement, we received a cash payment of $25.0 million on April 11, 2017.

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 Quarterly Report on Form 10-Q and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K").

Disclosure Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q 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 and pay dividends; the expected amount of our capital expenditures; expenditures related to the restatement of our financial statements and related matters, including sharing a portion of costs incurred by Exterran Corporation with respect to such matters, as well as reviews, investigations or other proceedings by government authorities, stockholders or other parties; anticipated cost savings, future revenue, gross margin and other financial or operational measures related to our business; 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 Quarterly Report on Form 10-Q. 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 2016 Form 10-K, 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.archrock.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 decrease in the level of supply or demand for oil or natural gas or a sustained low price of oil or natural gas;
- the success of our subsidiary, Archrock Partners, L.P. (along with its subsidiaries, the "Partnership"), including the amount of cash distributions by the Partnership with respect to its general partner interests, incentive distribution rights and limited partner interests;
- our reduced profit margins or the loss of market share resulting from competition or the introduction of competing technologies by other companies;
- the spin-off ("Spin-off") of our international contract operations, international aftermarket services and global fabrication businesses into an independent, publicly traded company ("Exterran Corporation");
- changes in economic or political conditions, including terrorism and legislative changes;
- the inherent risks associated with our operations, such as equipment defects, impairments, malfunctions and natural disasters;
- the loss of the Partnership's status as a partnership for United States of America ("U.S.") federal income tax purposes;
- the risk that counterparties will not perform their obligations under our financial instruments;
- 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 certain business and financial objectives, such as:
  - winning profitable new business;
  - growing our asset base and enhancing asset utilization;
  - integrating acquired businesses;
  - generating sufficient cash; and
  - accessing the capital markets at an acceptable cost;
- liability related to the use of our services;
- changes in governmental safety, health, environmental or other regulations, which could require us to make significant expenditures;
- the effectiveness of our control environment, including the identification of additional control deficiencies;
- the results of any reviews, investigations or other proceedings by government authorities;
- the results of any shareholder actions relating to the restatement of our financial statements that may be filed;
- the potential additional costs related to our restatement, cost-sharing with Exterran Corporation, and addressing any reviews, investigations or other proceedings by government authorities or shareholder actions; and
- our level of indebtedness and ability to fund our business.

All forward-looking statements included in this Quarterly Report on Form 10-Q are based on information available to us on the date of this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q.

Overview

Archrock, Inc., together with its subsidiaries ("Archrock", "our", "we", or "us") is a pure play U.S. natural gas contract operations services business and the leading provider of natural gas compression services to customers in the oil and natural gas industry throughout the U.S. and a leading supplier of aftermarket services to customers that own compression equipment in the U.S. We operate in two primary business lines: contract operations and aftermarket services. In our contract operations business line, we use our fleet of natural gas compression equipment to provide operations services to our customers. In our aftermarket services business line, we sell parts and components and provide operations, maintenance, overhaul and reconfiguration services to customers who own compression equipment.

Archrock Partners, L.P.

We have a significant equity interest in the Partnership, a master limited partnership that provides natural gas contract operations services to customers throughout the U.S. As of March 31, 2017, public unitholders held an approximately 55% ownership interest in the Partnership and we owned the remaining equity interest, including all of the general partner interest and incentive distribution rights. We consolidate the financial position and results of operations of the Partnership. It is our intention for the Partnership to be the primary vehicle for the growth of our contract operations business and we may grow the Partnership through third-party acquisitions and organic growth. As of March 31, 2017, the Partnership's fleet included 6,105 compressor units comprising approximately 3.3 million horsepower, or 86% of our and the Partnership's combined total horsepower.

Trends and Outlook

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 in the U.S. 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. For example, oil and natural gas exploration and development activity and the number of well completions typically decline when there is a significant reduction in oil and natural gas prices or significant instability in energy markets. Our revenue, earnings and financial position are affected by, among other things, market conditions that impact demand and pricing for natural gas compression, our customers' decisions between using our services or our competitors' services, our customers' decisions regarding whether to own and operate the equipment themselves and the timing and consummation of any acquisition of additional contract operations customer service agreements and equipment from third parties. Although we believe our contract operations business is typically less impacted by commodity prices than certain other oil and natural gas service providers, changes in oil and natural gas exploration and production spending normally result in changes in demand for our services.

Natural gas consumption in the U.S. for the twelve months ended January 31, 2017 remained flat at 27,284 billion cubic feet ("Bcf") compared to 27,289 Bcf for the twelve months ended January 31, 2016. The U.S. Energy Information Administration ("EIA") forecasts that total U.S. natural gas consumption will decrease by 2% in 2017 compared to 2016. The EIA estimates that the U.S. natural gas consumption level will be approximately 30 trillion cubic feet ("Tcf") in 2040, or 15% of the projected worldwide total of approximately 203 Tcf.

Natural gas marketed production in the U.S. for the twelve months ended January 31, 2017 decreased by approximately 2% to 28,216 Bcf compared to 28,785 Bcf for the twelve months ended January 31, 2016. The EIA forecasts that total U.S. natural gas marketed production will increase by 1% in 2017 compared to 2016. The EIA estimates that the U.S. natural gas production level will be approximately 35 Tcf in 2040, or 17% of the projected worldwide total of approximately 202 Tcf.

Historically, oil and natural gas prices and the level of drilling and exploration activity in the U.S. have been volatile. For example, the Henry Hub spot price for natural gas was $3.13 per million British thermal unit ("MMBtu") at March 31, 2017, which was 16% lower and 58% higher than prices at December 31, 2016 and March 31, 2016, respectively, and the U.S. natural gas liquid composite price was $6.77 per MMBtu for the month of January 2017, which was 2% and 51% higher than prices for the months of December 2016 and March 2016, respectively. Natural gas prices at March 31, 2017 improved relative to the first quarter of 2016 and helped contribute to increased new orders for our compression services in the first quarter of 2017 compared to the third and fourth quarters of 2016, as well as a stabilization of our contract operations revenue in the first quarter of 2017, which declined 1.3% from fourth quarter 2016 levels. Lower natural gas and natural gas liquids prices during 2015 and 2016 as compared to 2014 prices caused many companies to reduce their natural gas drilling and production activities during 2015 and further reduce those activities during 2016 from their 2014 levels in select shale plays and in more mature and predominantly dry gas areas in the U.S., where we provide a significant amount of contract operations services. In addition, the West Texas Intermediate crude oil spot price was $50.54 per barrel at March 31, 2017, which was 6% lower and 37% higher than prices at December 31, 2016 and March 31, 2016, respectively. West Texas Intermediate prices at March 31, 2017 improved relative to the first quarter of 2016 and also contributed to the stabilization of our contract operations revenue in the first quarter of 2017. Lower West Texas Intermediate crude oil prices during 2015 and 2016 as compared to 2014 prices resulted in a continued decrease in capital investment and in the number of new oil wells drilled by exploration and production companies in 2016 compared to 2015. Because we provide a significant amount of contract operations services related to the production of associated gas from oil wells and the use of gas lift to enhance production of oil from oil wells, our operations and our levels of operating horsepower were also impacted by crude oil drilling and production activity in 2015 and 2016.

As a result of the reduction in capital spending and drilling activity by U.S. producers in 2016, our contract operations business experienced a decline in revenue and operating horsepower and an increase in pricing pressure during 2016 compared to 2015. The reduction in capital spending by our customers in 2016, as well as their delaying maintenance activity on their equipment and in some cases using internal resources to perform work they have historically outsourced, also caused our aftermarket services business to decline in 2016 compared to 2015.

According to the Barclays 2017 Global E&P Spending Outlook, North America upstream spending is expected to increase by 27% in 2017. Due to the forecasted increase in customer spending in 2017, we anticipate horsepower returns will moderate during 2017 compared to 2016. We also anticipate investing more capital in new fleet units in 2017 than we did in 2016 to take advantage of expected improving market conditions during 2017. However, because compression service providers are a later cycle participant during improving markets, we anticipate any significant increase in the demand for our contract operations services will lag an increase in drilling activity. Also, given the operating horsepower declines and pricing pressure experienced in 2016, we expect an overall decline in our full-year 2017 contract operations revenue compared to 2016.

Operating Highlights

The following table summarizes our total available horsepower, total operating horsepower, average operating horsepower and horsepower utilization percentages (in thousands, except percentages):

	Three Months Ended		
	March 31, 2017	December 31, 2016	March 31, 2016
Total Available Horsepower (at period end)[1]	3,795	3,819	4,044
Total Operating Horsepower (at period end)[2]	3,079	3,115	3,325
Average Operating Horsepower	3,112	3,138	3,408
Horsepower Utilization:			
Spot (at period end)	81%	82%	82%
Average	82%	79%	85%

(1) Defined as idle and operating horsepower. New units completed by a third party manufacturer that have been delivered to us are included in the fleet.

(2) Defined as horsepower that is operating under contract and horsepower that is idle but under contract and generating revenue such as standby revenue.

Non-GAAP Financial Measures

Our management uses a variety of financial and operating metrics to analyze our performance. These metrics are significant factors in assessing our operating results and profitability and include the non-GAAP financial measure of gross margin.

We define gross margin as total revenue less cost of sales (excluding depreciation and amortization expense). Gross margin is included as a supplemental disclosure because it is a primary measure used by our management to evaluate the results of revenue and cost of sales (excluding depreciation and amortization expense), which are key components of our operations. We believe gross margin is important because it focuses on the current operating performance of our operations and excludes the impact of the prior historical costs of the assets acquired or constructed that are utilized in those operations, the indirect costs associated with our selling, general and administrative ("SG&A") activities, the impact of our financing methods and income taxes. Depreciation and amortization expense may not accurately reflect the costs required to maintain and replenish the operational usage of our assets and therefore may not portray the costs of current operating activity. As an indicator of our operating performance, gross margin should not be considered an alternative to, or more meaningful than, net income (loss) as determined in accordance with accounting principles generally accepted in the U.S. ("GAAP"). Our gross margin may not be comparable to a similarly titled measure of another company because other entities may not calculate gross margin in the same manner.

Gross margin has certain material limitations associated with its use as compared to net income (loss). These limitations are primarily due to the exclusion of interest expense, depreciation and amortization expense, SG&A expense, impairments, restatement and other charges, restructuring and other charges, debt extinguishment costs, provision for income taxes and other (income) loss, net. Each of these excluded expenses is material to our condensed consolidated statements of operations. Because we intend to finance a portion of our operations through borrowings, interest expense is a necessary element of our costs and our ability to generate revenue. Additionally, because we use capital assets, depreciation expense is a necessary element of our costs and our ability to generate revenue and SG&A expense is necessary to support our operations and required corporate activities. To compensate for these limitations, management uses this non-GAAP measure as a supplemental measure to other GAAP results to provide a more complete understanding of our performance.

The following table reconciles net loss to gross margin (in thousands):

	Three Months Ended March 31,	
	2017	2016
Net loss	$ (14,013)	$ (6,726)
Selling, general and administrative	27,553	34,651
Depreciation and amortization	47,772	53,927
Long-lived asset impairment	8,245	9,860
Restatement and other charges	801	—
Restructuring and other charges	457	8,065
Interest expense	21,421	20,300
Debt extinguishment costs	291	—
Other income, net	(794)	(1,989)
Provision for (benefit from) income taxes	323	(3,334)
Gross margin	$ 92,056	$ 114,754

Financial Results of Operations

Summary of Results

Revenue. Revenue during the three months ended March 31, 2017 was $189.9 million compared to $213.3 million during the three months ended March 31, 2016. The decrease was primarily due to a decrease in customer demand due to market conditions in our contract operations segment.

Net loss attributable to Archrock stockholders. We generated net loss attributable to Archrock stockholders of $11.7 million and $1.8 million during the three months ended March 31, 2017 and 2016, respectively. The increase in net loss attributable to Archrock stockholders was primarily driven by a decrease in gross margin in both our contract operations and aftermarket services segments, an increase in income tax expense and a decrease in the net loss attributable to the noncontrolling interest, partially offset by decreases in restructuring and other charges, SG&A expense and depreciation and amortization expense.

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Contract Operations
(dollars in thousands)

	Three Months Ended March 31,		Increase
	2017	2016	(Decrease)
Revenue	$ 149,984	$ 176,239	(15)%
Cost of sales (excluding depreciation and amortization expense)	64,097	68,179	(6)%
Gross margin	$ 85,887	$ 108,060	(21)%
Gross margin percentage [(1)]	57%	61%	(4)%

(1) Defined as gross margin divided by revenue.

The decrease in revenue during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to a decline in average operating horsepower and a decrease in rates driven by a decrease in customer demand due to market conditions. Average operating horsepower decreased by 9% from approximately 3,408,000 during the three months ended March 31, 2016 to approximately 3,112,000 during the three months ended March 31, 2017. Gross margin decreased during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 primarily due to the decrease in revenue explained above, partially offset by a decrease in cost of sales driven by decreases in repair and maintenance expense and lube oil expense. These cost decreases were primarily driven by the decrease in average operating horsepower explained above, efficiency gains in lube oil consumption and a decrease in lube oil prices as well as a decrease in expense resulting from our cost reduction program that was completed in fiscal year 2016. The decrease in cost of sales was partially offset by increases in costs associated with the start-up of units, freight expense and other operating costs associated with providing our contract services, which resulted in a decrease in gross margin percentage.

Aftermarket Services
(dollars in thousands)

	Three Months Ended March 31,		Increase
	2017	2016	(Decrease)
Revenue	$ 39,901	$ 37,056	8 %
Cost of sales (excluding depreciation and amortization expense)	33,732	30,362	11 %
Gross margin	$ 6,169	$ 6,694	(8)%
Gross margin percentage	15%	18%	(3)%

The increase in revenue during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to an increase in part sales. Gross margin decreased during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 primarily due to an increase in cost of sales mainly driven by the increase in part sales activities, partially offset by the increase in revenue explained above. Gross margin percentage decreased primarily due to the increase in costs mentioned above.

Costs and Expenses
(dollars in thousands)

	Three Months Ended March 31,		Increase
	2017	2016	(Decrease)
Selling, general and administrative	$ 27,553	$ 34,651	(20)%
Depreciation and amortization	47,772	53,927	(11)%
Long-lived asset impairment	8,245	9,860	(16)%
Restatement and other charges	801	—	100 %
Restructuring and other charges	457	8,065	(94)%
Interest expense	21,421	20,300	6 %
Debt extinguishment costs	291	—	100 %
Other income, net	(794)	(1,989)	(60)%

The decrease in SG&A expense during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to a $5.5 million decrease in compensation and benefit costs as a result of our cost reduction program that was completed in fiscal year 2016 and a $1.2 million decrease in professional expense primarily driven by a decrease in costs incurred in conjunction with transition services provided by Exterran Corporation as a result of the Spin-Off. SG&A expense as a percentage of revenue was 15% and 16% during the three months ended March 31, 2017 and 2016, respectively.

The decrease in depreciation and amortization expense during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to a decrease in depreciation expense related to assets reaching the end of their depreciable life as well as the impact of asset impairments during 2016.

During the three months ended March 31, 2017 and 2016, we reviewed the future deployment of our idle compression assets for units that were not of the type, configuration, condition, make or model that are cost efficient to maintain and operate. Based on these reviews, we determined that certain idle compressor units would be retired from the active fleet. The retirement of these units from the active fleet triggered a review of these assets for impairment, and as a result of our review, we recorded an asset impairment to reduce the book value of each unit to its estimated fair value. The fair value of each unit was estimated based on either 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, or the estimated component value of the equipment we plan to use.

The following table presents the results of our impairment review for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	**2016**
Retired idle compressor units within the active fleet	80	80
Horsepower of retired idle compressor units within the active fleet	28,000	33,000
Impairment recorded on retired idle compressor units within the active fleet (in millions)	$ 8.2	$ 9.9

During the three months ended March 31, 2017, we incurred $0.8 million of restatement and other charges primarily for professional and legal fees incurred during the quarter ended March 31, 2017 with respect to the restatement of our consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 and related SEC matters described in Note 15 (“Commitments and Contingencies”) to our Financial Statements.

As discussed in Note 3 (“Discontinued Operations”) to our Financial Statements, we completed the Spin-off of Exterran Corporation on November 3, 2015. During the three months ended March 31, 2017 and 2016, we incurred $0.5 million and $1.1 million, respectively of costs associated with the Spin-off which were directly attributable to Archrock.

In the first quarter of 2016 we determined to undertake a cost reduction program to reduce our on-going operating expenses, including workforce reductions and closure of certain of our make-ready shops. These actions were a result of our review of our businesses and efforts to efficiently manage cost and maintain our businesses in line with then current and expected activity levels and anticipated make-ready demand in the U.S market. During the three months ended March 31, 2016, we incurred $7.0 million of restructuring and other charges as a result of this plan primarily related to severance benefits and consulting fees. These charges are reflected as restructuring and other charges in our consolidated statement of operations.

The increase in interest expense during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to an increase in the weighted average effective interest rate and a $0.6 million write-off of deferred financing costs associated with the termination of the Partnership’s former $825.0 million revolving credit facility, partially offset by a decrease in the average outstanding balance of long-term debt.

The change in other income, net during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to a $2.5 million decrease in our indemnification asset related to tax contingencies due from Exterran Corporation partially offset by a $0.6 million loss on non-cash consideration and $0.2 million of expensed acquisition costs, both of which were associated with the March 2016 Acquisition (as discussed in Note 4 (“Business Acquisitions”) to our Financial Statements) and incurred during the three months ended March 31, 2016.

Income Taxes
(dollars in thousands)

	Three Months Ended March 31,		Increase
	2017	2016	(Decrease)
Provision for (benefit from) income taxes	$ 323	$ (3,334)	(110)%
Effective tax rate	(2.4)%	33.1%	(36)%

The increase in provision for income taxes during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to an increase in an unrecognized tax benefit resulting from recent appellate court decisions which impacted certain of our uncertain tax positions, partially offset by the federal benefit and deferred state release related to the increase in our unrecognized tax benefit and the tax impact of the new share-based compensation accounting standard (see Note 2 (“Recent Accounting Developments”) to our Financial Statements).

Net Income Attributable to the Noncontrolling Interest
(dollars in thousands)

	Three Months Ended March 31,		Increase
	2017	2016	(Decrease)
Net loss attributable to the noncontrolling interest	$ 2,328	$ 4,907	(53)%

The noncontrolling interest comprises the portion of the Partnership’s earnings that are applicable to the Partnership’s publicly-held common unitholder interest. As of March 31, 2017 and 2016, public unitholders held an ownership interest in the Partnership of 55% and 60%, respectively. The decrease in net loss attributable to the noncontrolling interest was primarily due to a decrease in the Partnership’s cash distributions paid on incentive distribution rights during the three months ended March 31, 2017 compared to the three months ended March 31, 2016, partially offset by the decrease in net income of the Partnership. The decrease in net income of the Partnership was driven by a decrease in gross margin, an increase in interest expense and an increase in provision for income taxes, partially offset by a decrease in restructuring charges, a decrease in SG&A expense and a decrease in depreciation and amortization expense.

Liquidity and Capital Resources

Our cash balance was $10.8 million at March 31, 2017, compared to $3.1 million at December 31, 2016. Working capital decreased to $86.7 million at March 31, 2017 from $109.2 million at December 31, 2016. The decrease in working capital was primarily due to an increase in accounts payable and a decrease in accounts receivable, partially offset by an increase in cash and a decrease in accrued liabilities.

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

	Three Months Ended March 31,	
	2017	2016
Net cash provided by (used in) continuing operations:		
Operating activities	$ 54,742	$ 71,503
Investing activities	(25,149)	(60,202)
Financing activities	(21,965)	(7,909)
Discontinued operations	45	(164)
Net change in cash and cash equivalents	$ 7,673	$ 3,228

Operating Activities. The decrease in net cash provided by operating activities from continuing operations during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to the decrease in gross margin, partially offset by a decrease in restructuring and other charges and a decrease in SG&A expense.

Investing Activities. The decrease in net cash used in investing activities from continuing operations during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to a $19.7 million decrease in capital expenditures, a $13.8 million payment for the March 2016 Acquisition (as discussed in Note 4 ("Business Acquisitions") to our Financial Statements) during the three months ended March 31, 2016, and a $1.6 million increase in proceeds from the sale of property, plant, and equipment.

Financing Activities. The increase in net cash used in financing activities from continuing operations during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 was primarily due to $6.5 million net repayments of long-term debt during the three months ended March 31, 2017 compared to $22.5 million of net borrowings during the three months ended March 31, 2016 and $14.5 million paid during the three months ended March 31, 2017 for debt issuance costs associated with the Partnership's $1.1 billion asset-based revolving credit facility (the "Partnership Credit Facility"). These changes were partially offset by a $14.6 million increase in contributions from Exterran Corporation, a $10.3 million decrease in distributions to noncontrolling partners in the Partnership and a $4.6 million decrease in dividends to Archrock stockholders.

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 compression 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 the acquisition cost of new compressor units that we add to our fleet. In addition, growth capital expenditures can also 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 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 purchase 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 $185 million to $205 million in net capital expenditures during 2017, primarily consisting of approximately $125 million to $145 million for growth capital expenditures and approximately $40 million to $45 million for equipment maintenance capital expenditures. Net capital expenditures are net of used fleet sales.

Long-Term Debt. As of March 31, 2017, we had $1.4 billion in outstanding debt obligations net of unamortized debt discounts and unamortized deferred financing costs, consisting of $89.0 million outstanding under the Credit Facility, $663.0 million outstanding under the Partnership Credit Facility, $342.8 million outstanding under the Partnership's 6% senior notes due April 2021 (the "Partnership 2013 Notes") and $341.5 million outstanding under the Partnership's 6% senior notes due October 2022 (the "Partnership 2014 Notes").

In October 2015, in connection with the Spin-off, we entered into a five-year, $350.0 million revolving credit facility (the "Credit Facility") and in November 2015, we terminated our former credit facility, repaid $326.5 million in borrowings and accrued and unpaid interest outstanding on the repayment date and completed the Spin-off. The Credit Facility will mature in November 2020. The Credit Facility was amended on May 10, 2016 to, among other things:

- add a condition precedent to the borrowing of loans that, after giving effect to the application of the proceeds of each borrowing, our consolidated cash balance (as defined in the Amended Credit Facility) will not exceed $35,000,000; and

- add a requirement that if our consolidated cash balance (as defined in the Amended Credit Facility) exceeds $35,000,000 as of the end of any business day, then we prepay any revolving loans then outstanding in an amount equal to the lesser of (i) such excess amount and (ii) the aggregate amount of the revolving loans then outstanding.

After taking into account $10.0 million of guarantees through letters of credit, as of March 31, 2017 we had undrawn capacity of $251.0 million under the Credit Facility. Our Credit Facility limits our Total Debt (as defined in the Credit Facility) to EBITDA ratio (as defined in the Credit Facility) to not greater than 4.25 to 1.0. As a result of this limitation, $142.3 million of the $251.0 million undrawn capacity under the Credit Facility was available for additional borrowings as of March 31, 2017.

Borrowings under the Credit Facility bear interest at a base rate or the London Interbank Offered Rate (“LIBOR”), at our option, plus an applicable margin. Depending on our Total Leverage Ratio (as defined in the credit agreement), the applicable margin for revolving loans varies (i) in the case of LIBOR loans, from 1.75% to 2.75% and (ii) in the case of base rate loans, from 0.75% to 1.75%. The base rate is the highest of the prime rate announced by Wells Fargo Bank, National Association, the Federal Funds Rate plus 0.5% and one-month LIBOR plus 1.0%. Additionally, we are required to pay commitment fees based on the daily unused amount of the Credit Facility in an amount, depending on its leverage ratio, ranging from 0.25% to 0.50%. At March 31, 2017, the applicable margin on amounts outstanding was 1.75%. We incurred $0.2 million and $0.1 million in commitment fees on the daily unused amount of the credit facility during the three months ended March 31, 2017 and 2016, respectively.

The weighted average annual interest rate at March 31, 2017 and 2016 on the outstanding balance under the Credit Facility was 2.8% and 2.2%, respectively. During the three months ended March 31, 2017 and 2016, respectively, the average daily debt balance under the Credit Facility was $79.8 million and $169.3 million.

Our Significant Domestic Subsidiaries (as defined in the Credit Facility agreement) guarantee the debt under the Credit Facility. Borrowings under the Credit Facility are secured by substantially all of the personal property assets and certain real property assets of us and our Significant Domestic Subsidiaries, including all of the equity interests of our subsidiaries (other than certain excluded subsidiaries). The Partnership does not guarantee the debt under the Credit Facility, its assets are not collateral under the Credit Facility and the general partner units in the Partnership are not pledged under the Credit Facility. Subject to certain conditions, at our request, and with the approval of the lenders, the aggregate commitments under the Credit Facility may be increased by up to an additional $100 million.

The Credit Facility contains various covenants with which we or certain of our subsidiaries must comply, including, but not limited to, limitations on the incurrence of indebtedness, investments, liens on assets, repurchasing equity and making distributions, transactions with affiliates, mergers, consolidations, dispositions of assets and other provisions customary in similar types of agreements. We are also subject to financial covenants (as defined in the Credit Facility agreement) including a ratio of EBITDA to Total Interest Expense of not less than 2.25 to 1.0, a ratio of consolidated Total Debt to EBITDA of not greater than 4.25 to 1.0 (subject to a temporary increase to 4.75 to 1.0 for any quarter during which an acquisition meeting certain thresholds is completed and for the following two quarters after the acquisition closes). If we were to anticipate non-compliance with these financial ratios, we may take actions to maintain compliance with them, possibly including reductions in our general and administrative expenses, capital expenditures or the payment of cash dividends at our current dividend rate. If we fail to remain in compliance with our financial covenants we would be in default under our debt agreements. A default under one or more of our debt agreements would trigger cross-default provisions under certain of our other debt agreements, which would accelerate our obligation to repay our indebtedness under those agreements. In addition, if we experience a material adverse effect on our assets, liabilities, financial condition, business or operations that, taken as a whole, impacts our ability to perform our obligations under our debt agreements, this could lead to a default under our debt agreements. As of March 31, 2017, we were in compliance with all financial covenants under the Credit Facility.

On March 30, 2017, the Partnership entered into the Partnership Credit Facility. The Partnership Credit Facility will mature on March 30, 2022, except that if any portion of the Partnership 2013 Notes are outstanding as of December 2, 2020, then the Partnership Credit Facility will instead mature on December 2, 2020. Concurrent with entering into the Partnership Credit Facility, the Partnership terminated its former $825.0 million revolving credit facility and $150.0 million term loan (collectively, the “Former Partnership Credit Facility”) and repaid $648.4 million in borrowings and accrued and unpaid interest outstanding. All commitments under the Former Partnership Credit Facility have been terminated.

Subject to certain conditions, including the approval by the lenders, the Partnership is able to increase the aggregate commitments under the Partnership Credit Facility by up to an additional $250.0 million. Portions of the Partnership Credit Facility up to $25.0 million and $50.0 million will be available for the issuance of letters of credit and swing line loans, respectively. As of March 31, 2017, the Partnership had undrawn capacity of $437.0 million under the Partnership Credit Facility. The Partnership Credit Facility agreement limits its Total Debt to EBITDA ratio (as defined in the Partnership Credit Facility agreement) to not greater than 5.95 to 1.0. As a result of this limitation, $293.2 million of the $437.0 million of undrawn capacity was available for additional borrowings as of March 31, 2017.

The Partnership Credit Facility bears interest at a base rate or LIBOR, at the Partnership's option, plus an applicable margin. Depending on the Partnership's leverage ratio, the applicable margin varies (i) in the case of LIBOR loans, from 2.00% to 3.25% and (ii) in the case of base rate loans, from 1.00% to 2.25%. The base rate is the highest of (i) the prime rate announced by JP Morgan Chase Bank, (ii) the Federal Funds Effective Rate plus 0.50% and (iii) one-month LIBOR plus 1.00%. Additionally, the Partnership is required to pay commitment fees based on the daily unused amount of the Partnership Credit Facility in an amount, depending on its leverage ratio, ranging from 0.375% to 0.50%. At March 31, 2017, the applicable margin on amounts outstanding was 2.25%. The Partnership incurred $0.4 million in commitment fees on the daily unused amount of the Partnership Credit Facility and the former $825.0 million revolving credit facility during the three months ended March 31, 2017 and 2016, respectively.

At March 31, 2017 and 2016, the weighted average annual interest rate on the outstanding balance of the Partnership Credit Facility and the Partnership's former revolving credit facility, excluding the effect of interest rate swaps, was 6.3% and 3.2%, respectively. During the three months ended March 31, 2017 and 2016, the average daily debt balance under these facilities was $507.6 million and $743.8 million, respectively.

The Partnership Credit Facility borrowing base consists of eligible accounts receivable, inventory and compression units. The largest component is eligible compression units.

Borrowings under the Partnership Credit Facility are secured by substantially all of the personal property assets of the Partnership and its Significant Domestic Subsidiaries (as defined in the Partnership Credit Facility agreement), including all of the membership interests of its Domestic Subsidiaries (as defined in the Partnership Credit Facility agreement).

The Partnership Credit Facility agreement contains various covenants including, but not limited to, restrictions on the use of proceeds from borrowings and limitations on the Partnership's ability to incur additional indebtedness, engage in transactions with affiliates, merge or consolidate, sell assets, make certain investments and acquisitions, make loans, grant liens, repurchase equity and pay distributions. The Partnership Credit Facility agreement also contains various covenants requiring mandatory prepayments from the net cash proceeds of certain asset transfers. In addition, if as of any date the Partnership has cash and cash equivalents (other than proceeds from a debt or equity issuance in the 30 days prior to such date reasonably expected to be used to fund an acquisition permitted under the Partnership Credit Facility agreement) in excess of $50.0 million, then such excess amount will be used to pay down outstanding borrowings of a corresponding amount under the Partnership Credit Facility.

The Partnership must maintain various consolidated financial ratios, as defined in the Partnership Credit Facility agreement, including a ratio of EBITDA to Total Interest Expense of not less than 2.5 to 1.0, a ratio of Senior Secured Debt to EBITDA of not greater than 3.50 to 1.0 and a ratio of Total Debt to EBITDA of not greater than 5.95 to 1.0 through the fourth quarter of 2017, 5.75 to 1.0 through fiscal year 2018, 5.50 to 1.00 through the second quarter of 2019 and 5.25 to 1.0 (subject to a temporary increase to 5.5 to 1.0 for any quarter during which an acquisition meeting certain thresholds is completed and for the following two quarters after the acquisition closes) thereafter. If the Partnership were to anticipate non-compliance with these financial ratios, the Partnership may take actions to maintain compliance with them, including a reduction in general and administrative expenses, its capital expenditures or the payment of cash distributions at its current distribution rate to its unit holders, including us. A reduction in the amount of cash distributions we receive from the Partnership would reduce the amount of cash available for payment of our debt, payment of dividends and the funding of our business requirements. A default under one of the Partnership's debt agreements would trigger cross-default provisions under the Partnership's other debt agreements, which would accelerate the Partnership's obligation to repay its indebtedness under those agreements. In addition, a material adverse effect with respect to the Partnership's assets, liabilities, financial condition, business or operations that, taken as a whole, impacts the Partnership's ability to perform its obligations under the Partnership Credit Facility, could lead to a default under that agreement. As of March 31, 2017, the Partnership was in compliance with all financial covenants under the Partnership Credit Facility.

In March 2013, the Partnership issued $350.0 million aggregate principal amount of the Partnership 2013 Notes. The Partnership used the net proceeds of $336.9 million, after original issuance discount and issuance costs, to repay borrowings outstanding under its former revolving credit facility. The Partnership 2013 Notes were issued at an original issuance discount of $5.5 million, which is being amortized using the effective interest method at an interest rate of 6.25% over their term. In January 2014, holders of the Partnership 2013 Notes exchanged their Partnership 2013 Notes for registered notes with the same terms.

On or after April 1, 2017, the Partnership may redeem all or a part of the Partnership 2013 Notes at redemption prices (expressed as percentages of principal amount) equal to 103.00% for the twelve-month period beginning on April 1, 2017, 101.50% for the twelve-month period beginning on April 1, 2018 and 100.00% for the twelve-month period beginning on April 1, 2019 and at any time thereafter, plus accrued and unpaid interest, if any, to the applicable redemption date of the Partnership 2013 Notes.

In April 2014, the Partnership issued $350.0 million aggregate principal amount of the Partnership 2014 Notes. The Partnership received net proceeds of $337.4 million, after original issuance discount and issuance costs, from this offering, which it used to fund a portion of an April 2014 acquisition and repay borrowings under its revolving credit facility. The Partnership 2014 Notes were issued at an original issuance discount of $5.7 million, which is being amortized using the effective interest method at an interest rate of 6.25% over their term. In February 2015, holders of the Partnership 2014 Notes exchanged their Partnership 2014 Notes for registered notes with the same terms.

Prior to April 1, 2018, the Partnership may redeem all or a part of the Partnership 2014 Notes at a redemption price equal to the sum of (i) the principal amount thereof, plus (ii) a make-whole premium at the redemption date, plus accrued and unpaid interest, if any, to the redemption date. On or after April 1, 2018, the Partnership may redeem all or a part of the Partnership 2014 Notes at redemption prices (expressed as percentages of principal amount) equal to 103.00% for the twelve-month period beginning on April 1, 2018, 101.50% for the twelve-month period beginning on April 1, 2019 and 100.00% for the twelve-month period beginning on April 1, 2020 and at any time thereafter, plus accrued and unpaid interest, if any, to the applicable redemption date of the Partnership 2014 Notes.

The Partnership 2013 Notes and the Partnership 2014 Notes are guaranteed on a senior unsecured basis by all of the Partnership's existing subsidiaries (other than Archrock Partners Finance Corp., which is a co-issuer of the Partnership 2013 Notes and the Partnership 2014 Notes) and certain of the Partnership's future subsidiaries. The Partnership 2013 Notes and the Partnership 2014 Notes and the guarantees, respectively, are the Partnership's and the guarantors' general unsecured senior obligations, rank equally in right of payment with all of the Partnership's and the guarantors' other senior obligations, and are effectively subordinated to all of the Partnership's and the guarantors' existing and future secured debt to the extent of the value of the collateral securing such indebtedness. In addition, the Partnership 2013 Notes and the Partnership 2014 Notes and guarantees are effectively subordinated to all existing and future indebtedness and other liabilities of any future non-guarantor subsidiaries.

The Partnership has entered into interest rate swap agreements to offset changes in expected cash flows due to fluctuations in the interest rates associated with its variable rate debt. At March 31, 2017, the Partnership was a party to interest rate swaps with a notional value of $500.0 million pursuant to which it makes fixed payments and receives floating payments. The Partnership's interest rate swaps expire over varying dates, with interest rate swaps having a notional amount of $300.0 million expiring in May 2018, interest rate swaps having a notional amount of $100.0 million expiring in May 2019 and the remaining interest rate swaps having a notional amount of $100.0 million expiring in May 2020. As of March 31, 2017, the weighted average effective fixed interest rate on the interest rate swaps was 1.6%. See Part I, Item 3 "Quantitative and Qualitative Disclosures About Market Risk" of this Quarterly Report on Form 10-Q for further discussion of the interest rate swap agreements.

In connection with the Spin-off, we entered into a separation and distribution agreement with Exterran Corporation pursuant to which we have the right to receive payments from a subsidiary of Exterran Corporation based on a notional amount corresponding to payments received by Exterran Corporation's subsidiaries from PDVSA Gas, S.A. ("PDVSA Gas") in respect of the sale of Exterran Corporation's subsidiaries' and joint ventures' previously nationalized assets. As of March 31, 2017, Exterran Corporation or its subsidiaries were due to receive the remaining principal amount of approximately $20.9 million from PDVSA Gas.

Additionally, we also have the right under the separation and distribution agreement to receive a $25.0 million cash payment from a subsidiary of Exterran Corporation promptly following the occurrence of a qualified capital raise as defined in the Exterran Corporation credit agreement. Such a qualified capital raise occurred on April 4, 2017, when Exterran Corporation completed an issuance of 8.125% Senior Notes. In satisfaction of the separation and distribution agreement, we received a cash payment of $25.0 million on April 11, 2017.

We may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such 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 a 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 our credit facilities, our borrowing capacity under these facilities could be reduced. Inability to borrow additional amounts under those facilities could limit our ability to fund our future growth and operations. We expect that net cash provided by operating activities and borrowings under our credit facilities will be sufficient to meet our liquidity needs through December 31, 2017; however, to the extent it is not, we may seek additional external financing.

Dividends. On April 26, 2017 our board of directors declared a quarterly dividend of $0.1200 per share of common stock, to be paid on May 16, 2017 to stockholders of record at the close of business on May 9, 2017. Any future determinations to pay cash dividends to our stockholders will be at the discretion of our board of directors and will be dependent upon our financial condition and results of operations, credit and loan agreements in effect at that time and other factors deemed relevant by our board of directors.

Partnership Distributions to Unitholders. The Partnership's partnership agreement requires it to distribute all of its "available cash" quarterly. Under the partnership agreement, available cash is defined generally to mean, for each fiscal quarter, (i) cash on hand at the Partnership at the end of the quarter in excess of the amount of reserves its general partner determines is necessary or appropriate to provide for the conduct of its business, to comply with applicable law, any of its debt instruments or other agreements or to provide for future distributions to its unitholders for any one or more of the upcoming four quarters, plus, (ii) if the Partnership's general partner so determines, all or a portion of the Partnership's cash on hand on the date of determination of available cash for the quarter.

Through our ownership of common units and all of the equity interests in the Partnership's general partner, we expect to receive cash distributions from the Partnership.

Under the terms of the partnership agreement, there is no guarantee that unitholders will receive quarterly distributions from the Partnership. The Partnership's distribution policy, which may be changed at any time, is subject to certain restrictions, including (i) restrictions contained in the Partnership's revolving credit facility, (ii) the Partnership's general partner's establishment of reserves to fund future operations or cash distributions to the Partnership's unitholders, (iii) restrictions contained in the Delaware Revised Uniform Limited Partnership Act and (iv) the Partnership's lack of sufficient cash to pay distributions.

On April 26, 2017, the board of directors of Archrock GP LLC, the general partner of the Partnership's general partner, approved a cash distribution by the Partnership of $0.2850 per limited partner unit, or approximately $19.1 million. Of the total distribution, the Partnership will pay us approximately $8.7 million with respect to our common unit and general partner interest in the Partnership. The distribution covers the period from January 1, 2017 through March 31, 2017. The record date for this distribution is May 9, 2017 and payment is expected to occur on May 15, 2017.

Off-Balance Sheet Arrangements

For information on our obligations with respect to performance bonds and letters of credit, see Note 15 ("Commitments and Contingencies") and Note 7 ("Long-Term Debt"), respectively, to our Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk primarily associated with changes in interest rates under our financing arrangements. We use derivative financial instruments to minimize the risks and/or costs associated with financial activities by managing our exposure to interest rate fluctuations on a portion of our debt obligations. We do not use derivative financial instruments for trading or other speculative purposes.

As of March 31, 2017, after taking into consideration interest rate swaps, we had $252.0 million of outstanding indebtedness that was effectively subject to floating interest rates. A 1% increase in the effective interest rate on our outstanding debt subject to floating interest rates at March 31, 2017 would result in an annual increase in our interest expense of $2.5 million.

For further information regarding our use of interest rate swap agreements to manage our exposure to interest rate fluctuations on a portion of our debt obligations, see Note 8 ("Accounting for Derivatives") to our Financial Statements.

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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to management to allow timely decisions regarding required disclosures.

As of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act), which are designed to provide reasonable assurance that we are able to record, process, summarize and report the information required to be disclosed in our reports under the Exchange Act within the time periods specified in the rules and forms of the SEC. Based on the evaluation, as of March 31, 2017 our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in reports that we file or submit under the Exchange Act is accumulated and communicated to management, and made known to our principal executive officer and principal financial officer, on a timely basis to ensure that it is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 15 ("Commitments and Contingencies") to the Financial Statements for a discussion of litigation related to the Heavy Equipment Statutes, which is incorporated by reference into this Item 1.

In the ordinary course of business, we are also involved in various other 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 other actions will not have a material adverse effect on our consolidated 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 consolidated financial position, results of operations or cash flows.

In addition, Exterran Corporation has disclosed that it has been cooperating with the SEC in an investigation, including responding to a subpoena for documents related to the restatement of its consolidated and combined financial statements and related disclosures and compliance with the U.S. Foreign Corrupt Practices Act, which are also being provided to the U.S. Department of Justice at its request. We have been assisting Exterran Corporation in responding to this investigation, including providing information regarding periods prior to the Spin-off that is not otherwise in Exterran Corporation's possession, and has been in communications with the SEC staff regarding 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, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes our repurchases of equity securities during the three months ended March 31, 2017:

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	Maximum Number of Shares yet to be Purchased Under the Publicly Announced Plans or Programs
January 1, 2017 - January 31, 2017	2,957	$ 13.32	N/A	N/A
February 1, 2017 - February 28, 2017	—	—	N/A	N/A
March 1, 2017 - March 31, 2017	166,935	13.66	N/A	N/A
Total	169,892	$ 13.66	N/A	N/A

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

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	Amendment No. 1 to Separation and Distribution Agreement, dated as of December 15, 2015, by and among Archrock, Inc., formerly named 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 2.3 to the Registrant's Annual Report on Form 10-K filed on February 29, 2016
3.1	Restated Certificate of Incorporation of Exterran Holdings, Inc. (now Archrock, Inc.), incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on August 20, 2007
3.2	Certificate of Amendment to Certificate of Incorporation of Exterran Holdings, Inc. (now Archrock, Inc.), incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on November 5, 2015
3.3	Composite Restated Certificate of Incorporation of Archrock, Inc., incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K filed on February 29, 2016
3.4	Third Amended and Restated Bylaws of Exterran Holdings, Inc. (now Archrock, Inc.), incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on March 20, 2013
10.1	Form of Archrock, Inc. Award Notice and Agreement for Performance Units, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 23, 2017
10.2	Form of Archrock, Inc. Award Notice and Agreement for Restricted Stock for Non-Employee Directors, incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 23, 2017
10.3*	Sixth Amendment and Consent to Credit Agreement and Second Amendment to Guaranty and Collateral Agreement, dated as of March 30, 2017, by and among Archrock Services, L.P., Archrock, Inc., the Guarantors party thereto, the Lenders party thereto and Wells Fargo Bank, National Association, as administrative agent for the Lenders
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
101.1*	Interactive data files pursuant to Rule 405 of Regulation S-T

* 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.

		ARCHROCK, INC.
Date: May 4, 2017	By:	/s/ David S. Miller
		David S. Miller Senior Vice President and Chief Financial Officer (Principal Financial Officer)
	By:	/s/ Donna A. Henderson
		Donna A. Henderson Vice President and Chief Accounting Officer (Principal Accounting Officer)

EXHIBIT INDEX

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* Filed herewith.

** Furnished, not filed.

SIXTH AMENDMENT AND CONSENT TO CREDIT AGREEMENT
AND SECOND AMENDMENT TO GUARANTY AND COLLATERAL AGREEMENT

This **SIXTH AMENDMENT AND CONSENT TO CREDIT AGREEMENT AND SECOND AMENDMENT TO GUARANTY AND COLLATERAL AGREEMENT** (this "Sixth Amendment"), dated as of March 30, 2017, is by and among Archrock Services, L.P., a limited partnership formed under the laws of the state of Delaware (the "Borrower"), Archrock, Inc., a corporation formed under the laws of the state of Delaware ("Parent"), the Guarantors party hereto, the Lenders listed on the signature pages attached hereto and Wells Fargo Bank, National Association, as administrative agent for the Lenders (in such capacity, the "Administrative Agent").

RECITALS

A. The Borrower, Parent, the Administrative Agent and the financial institutions from time to time party thereto (each, a "Lender" and collectively, the "Lenders") are parties to that certain Credit Agreement, dated as of July 10, 2015 (as amended, restated, supplemented or otherwise modified prior to the date hereof, the "Credit Agreement");

B. The Guarantors are parties to that certain Guaranty and Collateral Agreement, dated as of November 3, 2015 (as amended, restated, supplemented or otherwise modified from time to time, the "Guaranty and Collateral Agreement");

C. The Borrower has requested that the Administrative Agent enter into certain cash management agreements with respect to (i) certain of the Borrower's deposit accounts, pursuant to which the Administrative Agent and Wells Fargo Bank, National Association, in its capacity as depositary bank, would agree to certain arrangements with respect to cash of Archrock Partners Operating LLC, a Delaware limited liability company ("Archrock Partners Operating"), that may from time to time be deposited in such deposit accounts and (ii) certain deposit accounts of Archrock Partners Operating, pursuant to which Wells Fargo Bank, National Association, in its capacity as depositary bank, and the APLP Agent (as defined below) would agree to certain arrangements with respect to cash of the Borrower that may from time to time be deposited in such deposit account; and

D. The undersigned Lenders desire to consent to the Administrative Agent's execution and delivery of the Cash Management Agreements described herein and to amend the Credit Agreement as provided herein;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Defined Terms. Each capitalized term used herein but not otherwise defined herein has the meaning given to such term in the Credit Agreement. Unless otherwise indicated, all references to Sections, Articles, Annexes and Schedules in this Sixth Amendment refer to Sections, Articles, Annexes and Schedules of the Credit Agreement.

Section 2. Amendments to Credit Agreement and Guaranty and Collateral Agreement.

2.1 Additional Definitions. Section 1.01 of the Credit Agreement is hereby amended to add thereto in alphabetical order the following definitions which shall read in full as follows:

> "APLP Agent" means JPMorgan Chase Bank, N.A. in its capacity as administrative agent under the primary revolving credit facility for Archrock Partners Operating, together with any successors and assigns in such capacity from time to time.
>
> "APLP Cash Collateral" has the meaning set forth in the AROC Cash Management Agreement.
>
> "APLP Cash Management Agreement" means the APLP-WF Account Cash Management Agreement dated as of the Sixth Amendment Effective Date among the Borrower, Archrock Partners Operating, APLP Agent, the Administrative Agent and Wells Fargo Bank, National Association in its capacity as depositary bank.
>
> "Archrock Partners Operating" means Archrock Partners Operating LLC, a Delaware limited liability company.
>
> "AROC Cash Management Agreement" means the AROC-WF Account Cash Management Agreement dated as of the Sixth Amendment Effective Date among the Borrower, Archrock Partners Operating, APLP Agent, the Administrative Agent and Wells Fargo Bank, National Association in its capacity as depositary bank.
>
> "Cash Management Agreements" means the AROC Cash Management Agreement and the APLP Cash Management Agreement.
>
> "Sixth Amendment" means that certain Sixth Amendment and Consent to Credit Agreement and Second Amendment to Guaranty and Collateral Agreement dated as of March 30, 2017, by and among the Borrower, Parent, the Lenders party thereto and the Administrative Agent.
>
> "Sixth Amendment Effective Date" means March 30, 2017.

2.2 Amendment and Restatement of Definition. Section 1.01 of the Credit Agreement is hereby amended by amending and restating the following definitions in their entireties to read in full as follows:

> "Loan Documents" means this Agreement, the First Amendment, the Second Amendment, the Third Amendment, the Fourth Amendment, the Fifth Amendment, the Sixth Amendment, the Notes, the Letter of Credit Agreements, the Commitment Increase Certificates, the Additional Lender Certificates, the Letters of Credit, the Fee Letters, the Security Instruments, and each consent, waiver, subordination agreement, intercreditor agreement, Compliance Certificate, Borrowing Request,

Letter of Credit Request or Interest Election Request executed by the Borrower pursuant to this Agreement.

"Security Instruments" means the Guaranty and Collateral Agreement, the Pledge Agreement, the Mortgages, the Account Control Agreements, the Cash Management Agreements and the other agreements, instruments or certificates described or referred to in Exhibit F, and any and all other agreements and instruments now or hereafter executed and delivered by the Borrower or any other Person (other than Hedging Agreements with the Lenders or any Affiliate of a Lender or participation or similar agreements between any Lender and any other lender or creditor with respect to any Secured Obligations pursuant to this Agreement or any Treasury Management Agreement) granting a Lien upon any Property as security for the payment or performance of the Secured Obligations.

2.3 Amendment to Section 8.06 (Collateral and Guarantees). The proviso in Section 8.06(a) of the Credit Agreement is hereby amended by deleting "or" at the end of clause (J), inserting a comma in the place thereof, adding "or" at the end of clause (K), and adding a new clause (L) to read in its entirety as follows:

"(L) any other property constituting APLP Cash Collateral"

2.4 Amendment to Section 9.11 (Disposition of Properties). Section 9.11 of the Credit Agreement is hereby amended by deleting "and" at the end of clause (m), replacing "(m)" in clause (n) with "(n)", renumbering clause (n) as clause (o), and adding a new clause (n) to read in its entirety as follows:

"(n) any Group Member may Dispose of any APLP Cash Collateral; and"

2.5 Amendment to Definition of Excluded Collateral in Guaranty and Collateral Agreement. The definition of "Excluded Collateral" in the Guaranty and Collateral Agreement is amended to renumber clause (xi) as clause (xii) and to add the following clause (xi) immediately before the word "and" at the end of clause (x): "(xi) any APLP Cash Collateral,".

2.6 Amendment to Section 6.01 of Guaranty and Collateral Agreement. Section 6.01(d) of the Guaranty and Collateral Agreement is hereby amended by amending to read in full as follows:

(d) Notwithstanding anything to the contrary herein, in any other Loan Document, or in any Account Control Agreement entered into pursuant to the requirements of the Loan Documents, Administrative Agent hereby agrees that it will not deliver any "Access Termination Notice" or "Disposition Instructions" or any equivalent notice of exclusive control, or otherwise exercise any equivalent rights, in each case under any Account Control Agreement unless, in any such case, either (x) an Event of Default has occurred and is continuing or (y) it is obligated to do so under the terms of any Cash Management Agreement.

2.7 Amendment to Section 9.12 of Guaranty and Collateral Agreement. Section 9.12 of the Guaranty and Collateral Agreement is hereby amended by amending and restating the last sentence of such section to read in full as follows:

> "In addition to the foregoing, in connection with any termination and release pursuant to Section 9.12(a), the Administrative Agent, at the written request and expense of the Borrower, will promptly provide the requisite notice under any Account Control Agreement in order to terminate such Account Control Agreement, except to the extent it is prohibited from providing such notice under the terms of any Cash Management Agreement."

Section 3. Consent.

3.1 Subject to the occurrence of the Sixth Amendment Effective Date (as defined in Section 4 below), the Majority Lenders hereby consent to the execution and delivery by the Administrative Agent of the Cash Management Agreements.

3.2 The consents set forth in this Section 3 are limited to the extent described herein and shall not be construed to be a consent to the modification of any other terms of the Credit Agreement or of the other Loan Documents, except as required to implement the consent set forth in this Section 3.

Section 4. Conditions Precedent. This Sixth Amendment shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 12.02 of the Credit Agreement) (the "Sixth Amendment Effective Date"):

4.1 The Administrative Agent shall have received from the Majority Lenders, the Borrower, and each Guarantor counterparts (in such number as may be requested by the Administrative Agent) of this Sixth Amendment signed on behalf of such Persons.

4.2 The Borrower shall have paid to the Administrative Agent all fees and other amounts due and payable on or prior to the Sixth Amendment Effective Date, including, to the extent invoiced, reimbursement or payment of all reasonable and documented out-of-pocket costs and expenses required to be reimbursed or paid by the Borrower under the Credit Agreement.

4.3 No Default or Event of Default shall have occurred and be continuing as of the date hereof after giving effect to the terms of this Sixth Amendment.

4.4 The Administrative Agent shall have received such other documents as the Administrative Agent (or its counsel) may reasonably request relating to the transactions contemplated by the Sixth Amendment.

Section 5. Miscellaneous.

5.1 Confirmation. The provisions of the Credit Agreement, except as specifically amended or consented to above, or as amended by this Sixth Amendment, shall remain in full force and effect following the effectiveness of this Sixth Amendment. The amendments contemplated hereby shall not limit or impair any Liens granted by the Borrower or any other Loan Party to secure the Secured Obligations, each of which are hereby ratified, affirmed and extended to secure the Secured Obligations as they may be extended pursuant hereto.

5.2 Representations and Warranties.

(a) Ratification and Affirmation. The Borrower hereby: (i) acknowledges the terms of this Sixth Amendment; (ii) ratifies and affirms its obligations under, and acknowledges, renews and extends its continued liability under, each Loan Document to which it is a party and agrees that each Loan Document to which it is a party remains in full force and effect, except as expressly amended hereby, after giving effect to the amendments and consents contained herein; (iii) agrees that, from and after the Sixth Amendment Effective Date, each reference to the Credit Agreement or the Guaranty and Collateral Agreement in the Security Instruments and the other Loan Documents shall be deemed to be a reference to the Credit Agreement or the Guaranty and Collateral Agreement, as applicable, as amended by this Sixth Amendment; and (iv) represents and warrants to the Lenders that as of the date hereof, after giving effect to the terms of this Sixth Amendment, including the amendments and consents contained herein: (A) all of the representations and warranties made by the Borrower contained in each Loan Document to which it is a party are true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representation or warranty that is already qualified or modified by materiality in the text thereof) on and as of the date hereof, except to the extent such representations and warranties are expressly limited to an earlier date, in which case, such representations and warranties are true and correct in all material respects as of such specified earlier date; and (B) no Default or Event of Default has occurred and is continuing.

(b) Corporate Authority; Enforceability; No Conflicts. The Borrower hereby represents and warrants to the Lenders that (i) it has all necessary power and authority to execute, deliver and perform its obligations under this Sixth Amendment; (ii) the execution, delivery and performance by the Borrower of this Sixth Amendment has been duly authorized by all necessary action on its part; (iii) this Sixth Amendment has been duly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditor's rights and by equitable principles (regardless of whether enforcement is sought in equity or at law); (iv) the execution and delivery of this Sixth Amendment by the Borrower and the performance of its obligations hereunder require no authorizations, approvals or consents of, or registrations or filings with, any Governmental Authority, except for those that have been obtained or made and are in effect; and (v) neither the execution and delivery of this Sixth Amendment nor the transactions contemplated hereby will (A) contravene, or result in a breach of, the Organization Documents of the Borrower, (B) violate any Governmental Requirement applicable to or binding upon the Borrower or any of its Properties, except to the extent that any such violation, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, or (C) violate or result in a default under any agreement or instrument to which the Borrower is a party (other than any agreement or instrument the contravention of which or breach of which could not reasonably be expected to be materially adverse to any Secured Party) or by which it is bound or to which its Properties are subject, except to the extent that any such violation or default, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

5.3 No Waiver. Neither the execution by the Administrative Agent or the Lenders of this Sixth Amendment, nor any other act or omission by the Administrative Agent or the Lenders or their officers in connection herewith, shall be deemed a waiver by the Administrative Agent or the Lenders of any Default or Event of Default which may exist, which may have occurred prior to the date of the effectiveness of this Sixth Amendment or which may occur in the future under the Credit Agreement and/or the other Loan Documents. Similarly, nothing contained in this Sixth Amendment shall directly or indirectly in any way whatsoever: (a) impair, prejudice or otherwise adversely affect the Administrative Agent's or any Lender's right at any time to exercise any right, privilege or remedy in connection with the Loan Documents with respect to any Default or Event of Default; (b) except as expressly provided herein, amend or alter any provision of the Credit Agreement, the other Loan Documents, or any other contract or instrument; or (c) constitute any course of dealing or other basis for altering any obligation of the Borrower or any right, privilege or remedy of the Administrative Agent or the Lenders under the Credit Agreement, the other Loan Documents or any other contract or instrument.

5.4 Loan Document. This Sixth Amendment is a "Loan Document" as defined and described in the Credit Agreement and all of the terms and provisions of the Credit Agreement relating to Loan Documents shall apply hereto.

5.5 Parties in Interest. All of the terms and provisions of this Sixth Amendment shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

5.6 Counterparts. This Sixth Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of this Sixth Amendment by facsimile transmission or electronic transmission (e.g., PDF) shall be effective as delivery of a manually executed counterpart hereof.

5.7 NO ORAL AGREEMENT. THIS SIXTH AMENDMENT, THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND THEREWITH REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR UNWRITTEN ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

5.8 GOVERNING LAW. THIS SIXTH AMENDMENT (INCLUDING, BUT NOT LIMITED TO, THE VALIDITY AND ENFORCEABILITY HEREOF) SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Sixth Amendment to be duly executed as of the date first written above.

ARCHROCK SERVICES, L.P., a Delaware limited partnership, as the Borrower

By: /s/ David S. Miller
Name: David S. Miller
Title: Senior Vice President and Chief Financial Officer

ARCHROCK, INC., a Delaware corporation, as Parent

By: /s/ David S. Miller
Name: David S. Miller
Title: Senior Vice President and Chief Financial Officer

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent and as a Lender

By: /s/ Timothy P. Gebauer
Name: Timothy P. Gebauer
Title: Director

CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK, as a Lender and Issuing Bank

By: /s/ Michael Willis
Name: Michael Willis
Title: Managing Director

By: /s/ David Gurghigian
Name: David Gurghigian
Title: Managing Director

BANK OF AMERICA, N.A., as a Lender and Issuing Bank

By: /s/ Kimberley Cole
Name: Kimberley Cole
Title: Associate

JPMORGAN CHASE BANK, N.A., as a Lender and Issuing Bank

By: /s/ Thomas Okamoto
Name: Thomas Okamoto
Title: Authorized Officer

ROYAL BANK OF CANADA, as a Lender and Issuing Bank

By: /s/ Kristan Spivey
Name: Kristan Spivey
Title: Authorized Signatory

THE BANK OF NOVA SCOTIA, as a Lender

By: /s/ J. Frazell
Name: J. Frazell
Title: Director

COMPASS BANK, as a Lender

By: /s/ Michael Song
Name: Michael Song
Title: Senior Vice President

CAPITAL ONE, NATIONAL ASSOCIATION, as a Lender

By: /s/ Matthew Brice
Name: Matthew Brice
Title: Vice President

SUMITOMO MITSUI BANKING CORPORATION, as a Lender

By: /s/ James D. Weinstein
Name: James D. Weinstein
Title: Managing Director

TORONTO DOMINION (NEW YORK) LLC, as a Lender

By: /s/ Lexanne Cooper
Name: Lexanne Cooper
Title: Authorized Signatory

GOLDMAN SACHS BANK USA, as a Lender

By: /s/ Ushma Dedhiya
Name: Ushma Dedhiya
Title: Authorized Signatory

MUFG UNION BANK, N.A., as a Lender

By: /s/ Stephen W. Warfel
Name: Stephen W. Warfel
Title: Managing Director

PNC BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Stephen A. Manto
Name: Stephen A. Manto
Title: Senior Vice President

REGIONS BANK, as a Lender

By: /s/ David Valentine
Name: David Valentine
Title: Director

BRANCH BANKING AND TRUST COMPANY, as a Lender

By: /s/ Lincoln LaCour
Name: Lincoln LaCour
Title: Assistant Vice President

CITIBANK, N.A., as a Lender

By: /s/ Saqeeb Ludhi
Name: Saqeeb Ludhi
Title: Vice President

RAYMOND JAMES BANK, N.A., as a Lender

By: /s/ Scott G. Axelrod
Name: Scott G. Axelrod
Title: Senior Vice President

REAFFIRMATION AND RATIFICATION: Each Guarantor hereby (a) acknowledges the terms of this Sixth Amendment; (b) ratifies and affirms its obligations under, and acknowledges its continued liability under, each Loan Document to which it is a party, including the Guaranty and Collateral Agreement, and agrees that each Loan Document to which it is a party, including the Guaranty and Collateral Agreement, remains in full force and effect as expressly amended hereby; and (c) represents and warrants to the Lenders that, as of the date hereof, after giving effect to the terms of this Sixth Amendment: (i) all of the representations and warranties made by such Guarantor contained in each Loan Document to which such Guarantor is a party, including the Guaranty and Collateral Agreement, are true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representation or warranty that is already qualified or modified by materiality in the text thereof) as though made on and as of the Sixth Amendment Effective Date (unless such representations and warranties are stated to relate to a specific earlier date, in which case, such representations and warranties shall be true and correct in all material respects as of such earlier date) and (ii) no Default or Event of Default has occurred and is continuing.

ACKNOWLEDGED AND RATIFIED: **ARCHROCK, INC.**

By: /s/ David S. Miller
Name: David S. Miller
Title: Senior Vice President and Chief Financial Officer

ARCHROCK SERVICES LEASING LLC

By: /s/ David S. Miller
Name: David S. Miller
Title: Senior Vice President and Chief Financial Officer

ARCHROCK MLP LP LLC

By: /s/ David S. Miller
Name: David S. Miller
Title: Senior Vice President and Chief Financial Officer

ARCHROCK GP LP LLC

By: /s/ David S. Miller
Name: David S. Miller
Title: Senior Vice President and Chief Financial Officer

Exhibit 31.1

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

I, D. Bradley Childers, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Archrock, Inc.;

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: May 4, 2017

By: /s/ D. BRADLEY CHILDERS

Name: D. Bradley Childers
Title: President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, David S. Miller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Archrock, Inc.;

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: May 4, 2017

By:	/s/ DAVID S. MILLER	
	Name:	David S. Miller
	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 Archrock, Inc. (the "Company") for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), D. Bradley Childers, 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/ D. BRADLEY CHILDERS

Name:	D. Bradley Childers
Title:	President and Chief Executive Officer

Date: May 4, 2017

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 Archrock, Inc. (the "Company") for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David S. Miller, 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 S. MILLER

Name: David S. Miller
Title: Senior Vice President and Chief Financial Officer

Date: May 4, 2017

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.