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 June 30, 2019

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

FOR THE TRANSITION PERIOD FROM TO .

Commission File No. 001-35779

USA Compression Partners, LP
(Exact name of registrant as specified in its charter)

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

(512) 473-2662
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Trading Symbol(s)**	**Name of exchange on which registered**
Common units representing limited partner interests	USAC	New York Stock Exchange

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

As of August 2, 2019, there were 96,600,171 common units outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

USA COMPRESSION PARTNERS, LP
Unaudited Condensed Consolidated Balance Sheets
(in thousands)

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 2	$ 99
Accounts receivable, net:		
Trade, net	90,348	75,572
Other	3,914	3,809
Related party receivables	47,009	47,661
Inventory	95,532	89,007
Prepaid expenses and other assets	3,781	1,592
Total current assets	240,586	217,740
Installment receivable	4,962	6,924
Property and equipment, net	2,499,694	2,521,488
Identifiable intangible assets, net	377,860	392,550
Goodwill	619,411	619,411
Other assets	17,158	16,536
Total assets	$ 3,759,671	$ 3,774,649
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable	$ 24,885	$ 23,804
Related party payables	—	395
Accrued liabilities	112,119	94,028
Deferred revenue	39,993	31,372
Total current liabilities	176,997	149,599
Long-term debt, net	1,811,106	1,759,058
Other liabilities	14,400	9,827
Total liabilities	2,002,503	1,918,484
Preferred Units	477,309	477,309
Commitments and contingencies		
Partners' capital:		
Limited partner interest:		
Common units, 90,202 and 89,984 units issued and outstanding, respectively	1,197,532	1,289,731
Class B Units, 6,398 units issued and outstanding as of each period	68,348	75,146
Warrants	13,979	13,979
Total partners' capital	1,279,859	1,378,856
Total liabilities and partners' capital	$ 3,759,671	$ 3,774,649

See accompanying notes to unaudited condensed consolidated financial statements.

USA COMPRESSION PARTNERS, LP
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Revenues:				
Contract operations	$ 162,937	$ 155,261	$ 326,913	$ 225,068
Parts and service	4,400	7,074	7,084	9,824
Related party	6,338	4,563	10,424	8,536
Total revenues	173,675	166,898	344,421	243,428
Costs and expenses:				
Cost of operations, exclusive of depreciation and amortization	56,245	57,533	113,270	94,868
Selling, general and administrative	16,210	27,177	32,205	35,138
Depreciation and amortization	56,783	52,868	115,707	97,540
Loss on disposition of assets	1,546	731	1,586	11,078
Impairment of compression equipment	—	—	3,234	—
Total costs and expenses	130,784	138,309	266,002	238,624
Operating income	42,891	28,589	78,419	4,804
Other income (expense):				
Interest expense, net	(32,679)	(25,682)	(61,536)	(25,682)
Other	12	19	32	(1)
Total other expense	(32,667)	(25,663)	(61,504)	(25,683)
Net income (loss) before income tax expense (benefit)	10,224	2,926	16,915	(20,879)
Income tax expense (benefit)	275	(271)	379	(706)
Net income (loss)	9,949	3,197	16,536	(20,173)
Less: distributions on Preferred Units	(12,188)	(12,054)	(24,375)	(12,054)
Net loss attributable to common and Class B unitholders’ interests	$ (2,239)	$ (8,857)	$ (7,839)	$ (32,227)
Net income (loss) attributable to:				
Common units	$ 1,047	$ (5,131)	$ (1,041)	$ (24,417)
Class B Units	$ (3,286)	$ (3,726)	$ (6,798)	$ (7,810)
Weighted average common units outstanding - basic	90,209	89,906	90,135	58,722
Weighted average common units outstanding - diluted	90,421	89,906	90,135	58,722
Weighted average Class B Units outstanding - basic and diluted	6,398	6,398	6,398	6,398
Basic and diluted net income (loss) per common unit	$ 0.01	$ (0.06)	$ (0.01)	$ (0.42)
Basic and diluted net loss per Class B Unit	$ (0.51)	$ (0.58)	$ (1.06)	$ (1.22)
Distributions declared per common unit for respective periods	$ 0.525	$ 0.525	$ 1.05	$ 0.525

See accompanying notes to unaudited condensed consolidated financial statements.

USA COMPRESSION PARTNERS, LP
Unaudited Condensed Consolidated Statements of Changes in Partners' Capital
And Predecessor Parent Company Net Investment
(in thousands, except per unit amounts)

	For the Six Months Ended June 30, 2019				
	Common Units	Class B Units	Warrants	Predecessor Parent Company Net Investment	Total
Balance, December 31, 2018	$ 1,289,731	$ 75,146	$ 13,979	$ —	$ 1,378,856
Vesting of phantom units	2,393	—	—	—	2,393
Distributions and distribution equivalent rights, $0.525 per unit	(47,259)	—	—	—	(47,259)
Issuance of common units under the DRIP	252	—	—	—	252
Net loss	(2,088)	(3,512)	—	—	(5,600)
Balance, March 31, 2019	$ 1,243,029	$ 71,634	$ 13,979	$ —	$ 1,328,642
Vesting of phantom units	580	—	—	—	580
Distributions and distribution equivalent rights, $0.525 per unit	(47,351)	—	—	—	(47,351)
Issuance of common units under the DRIP	227	—	—	—	227
Net income (loss)	1,047	(3,286)	—	—	(2,239)
Balance, June 30, 2019	$ 1,197,532	$ 68,348	$ 13,979	$ —	$ 1,279,859

	For the Six Months Ended June 30, 2018				
	Common Units	Class B Units	Warrants	Predecessor Parent Company Net Investment	Total
Balance, December 31, 2017	$ —	$ —	$ —	$ 1,664,870	$ 1,664,870
Predecessor net loss	—	—	—	(23,370)	(23,370)
Predecessor parent company net contribution	—	—	—	26,730	26,730
Balance, March 31, 2018	$ —	$ —	$ —	$ 1,668,230	$ 1,668,230
Allocation of Predecessor parent company net investment	1,668,230	—	—	(1,668,230)	—
Deemed distribution for additional interest in USA Compression Predecessor	(37,178)	—	—	—	(37,178)
Purchase Price Adjustment for USA Compression Partners, LP	(654,340)	—	—	—	(654,340)
Conversion of GP interest	135,440	—	—	—	135,440
Issuance of common units for acquisition	324,910	—	—	—	324,910
Issuance of Class B units	—	86,125	—	—	86,125
Issuance of Warrants	—	—	13,979	—	13,979
Vesting of phantom units	5,193	—	—	—	5,193
Distributions and DERs	(47,217)	—	—	—	(47,217)
Issuance of common units under the DRIP	212	—	—	—	212
Net loss for the period April 2, 2018 to June 30, 2018	(5,131)	(3,726)	—	—	(8,857)
Balance, June 30, 2018	$ 1,390,119	$ 82,399	$ 13,979	$ —	$ 1,486,497

See accompanying notes to unaudited condensed consolidated financial statements.

USA COMPRESSION PARTNERS, LP
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash flows from operating activities:		
Net income (loss)	$ 16,536	$ (20,173)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	115,707	97,540
Bad debt expense	300	283
Amortization of debt issuance costs	3,655	2,039
Unit-based compensation expense	5,840	8,999
Deferred income tax expense (benefit)	200	(825)
Loss on disposition of assets	1,586	11,078
Impairment of compression equipment	3,234	—
Changes in assets and liabilities:		
Accounts receivable and related party receivables, net	(12,567)	(50,836)
Inventory	(14,864)	2,919
Prepaid expenses and other current assets	(2,189)	5,792
Other noncurrent assets	987	(56)
Other noncurrent liabilities	(8)	—
Accounts payable and related party payables	(1,264)	(4,597)
Accrued liabilities and deferred revenue	30,433	42,207
Net cash provided by operating activities	147,586	94,370
Cash flows from investing activities:		
Capital expenditures, net	(87,821)	(149,363)
Proceeds from disposition of property and equipment	8,855	6,433
Proceeds from insurance recovery	3,017	—
Acquisitions of USA Compression Predecessor	—	(1,232,546)
Assumed cash acquired in business combination of USA Compression Partners, LP	—	710,506
Net cash used in investing activities	(75,949)	(664,970)
Cash flows from financing activities:		
Proceeds from revolving credit facility	413,775	261,425
Proceeds from senior notes	750,000	—
Payments on revolving credit facility	(1,099,970)	(130,486)
Proceeds from issuance of Preferred Units and Warrants, net	—	479,100
Cash paid related to net settlement of unit-based awards	(1,692)	(4,438)
Cash distributions on common units	(95,453)	(47,392)
Cash distributions on Preferred Units	(24,375)	—
Financing costs	(13,468)	(17,615)
Other	(551)	—
Contributions from Parent, net	—	28,520
Net cash provided by (used in) financing activities	(71,734)	569,114
Decrease in cash and cash equivalents	(97)	(1,486)
Cash and cash equivalents, beginning of period	99	4,013
Cash and cash equivalents, end of period	$ 2	$ 2,527
Supplemental cash flow information:		
Cash paid for interest, net of capitalized amounts	$ 44,346	$ 10,063
Cash paid for taxes	$ 171	$ 183
Supplemental non-cash transactions:		
Non-cash distributions to certain common unitholders (DRIP)	$ 479	$ 212
Transfers to (from) inventory to property and equipment	$ 8,316	$ (12,612)
Change in capital expenditures included in accounts payable and accrued liabilities	$ (434)	$ (32,580)
Financing costs included in accounts payable and accrued liabilities	$ 49	$ —
Predecessor’s non-cash contribution to Predecessor’s Parent	$ —	$ (1,790)

See accompanying notes to unaudited condensed consolidated financial statements.

USA COMPRESSION PARTNERS, LP
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Description of Business

Unless the context otherwise requires or where otherwise indicated, the terms “our,” “we,” “us,” “the Partnership” and similar language when used in the present or future tense and for periods on and subsequent to April 2, 2018 (the “Transactions Date”) refer to USA Compression Partners, LP, collectively with its consolidated operating subsidiaries, including the USA Compression Predecessor. Unless the context otherwise requires or where otherwise indicated, the term “USA Compression Predecessor,” as well as the terms “our,” “we,” “us” and “its” when used in a historical context or in reference to periods prior to the Transactions Date, refer to CDM Resource Management LLC and CDM Environmental & Technical Services LLC collectively, which has been deemed to be the predecessor of the Partnership for financial reporting purposes.

We are a Delaware limited partnership. Through our operating subsidiaries, we provide compression services under fixed-term contracts with customers in the natural gas and crude oil industries, using natural gas compression packages that we design, engineer, own, operate and maintain. We primarily provide compression services in a number of shale plays throughout the United States, including the Utica, Marcellus, Permian Basin, Delaware Basin, Eagle Ford, Mississippi Lime, Granite Wash, Woodford, Barnett, Haynesville, Niobrara and Fayetteville shales.

USA Compression GP, LLC, a Delaware limited liability company, serves as our general partner and is referred to herein as the “General Partner.” The General Partner has been wholly owned by Energy Transfer Operating, L.P. (“ETO”) since October 2018, when Energy Transfer Equity, L.P. (“ETE”) and Energy Transfer Partners, L.P. (“ETP”) completed the merger of ETP with a wholly owned subsidiary of ETE in a unit-for-unit exchange (the “ETE Merger”). Following the closing of the ETE Merger, ETE changed its name to “Energy Transfer LP” (“ET LP”) and ETP changed its name to “Energy Transfer Operating, L.P.” Upon the closing of the ETE Merger, ETE contributed to ETO 100% of the limited liability company interests in the General Partner. References herein to “ETO” refer to ETP for periods prior to the ETE Merger and ETO following the ETE Merger, and references to “ET LP” refer to ETE for periods prior to the ETE Merger and ET LP following the ETE Merger.

The USA Compression Predecessor owned and operated a fleet of compressors used to provide natural gas compression services for customer specific systems. The USA Compression Predecessor also owned and operated a fleet of equipment used to provide natural gas treating services, such as carbon dioxide and hydrogen sulfide removal, cooling, and dehydration. The USA Compression Predecessor had operations located in Texas, Oklahoma, Louisiana, Arkansas, Pennsylvania, New Mexico, Colorado, Ohio, and West Virginia.

CDM Acquisition

On the Transactions Date, we consummated the transactions contemplated by the Contribution Agreement dated January 15, 2018, pursuant to which, among other things, we acquired all of the issued and outstanding membership interests of the USA Compression Predecessor from ETO (the “CDM Acquisition”) in exchange for aggregate consideration of approximately $1.7 billion, consisting of (i) 19,191,351 common units representing limited partner interests in us, (ii) 6,397,965 Class B units representing limited partner interests in us (“Class B Units”) and (iii) $1.2 billion in cash (including customary closing adjustments).

General Partner Purchase Agreement

On the Transactions Date, and in connection with the closing of the CDM Acquisition, we consummated the transactions contemplated by the Purchase Agreement dated January 15, 2018, by and among ET LP, Energy Transfer Partners, L.L.C., USA Compression Holdings, LLC (“USA Compression Holdings”) and, solely for certain purposes therein, R/C IV USACP Holdings, L.P. and ETO, pursuant to which, among other things, ET LP acquired from USA Compression Holdings (i) all of the outstanding limited liability company interests in the General Partner and (ii) 12,466,912 common units for cash consideration paid by ET LP to USA Compression Holdings equal to $250.0 million (the “GP Purchase”). Upon the closing of the ETE Merger, ET LP contributed all of the interests in the General Partner and the 12,466,912 common units to ETO.

Equity Restructuring Agreement

On the Transactions Date, and in connection with the closing of the CDM Acquisition, we consummated the transactions contemplated by the Equity Restructuring Agreement dated January 15, 2018, pursuant to which, among other things, the Partnership, the General Partner and ET LP agreed to cancel the Partnership's Incentive Distribution Rights and convert the General Partner Interest (as defined in the Equity Restructuring Agreement) into a non-economic general partner interest, in exchange for the Partnership's issuance of 8,000,000 common units to the General Partner (the "Equity Restructuring").

The CDM Acquisition, GP Purchase and Equity Restructuring are collectively referred to as the "Transactions."

(2) Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The Partnership

The unaudited condensed consolidated financial statements give effect to the business combination and the Transactions discussed above under the acquisition method of accounting, and the business combination has been accounted for in accordance with the applicable reverse merger accounting guidance. ET LP acquired a controlling financial interest in us through the acquisition of the General Partner. As a result, the USA Compression Predecessor is deemed to be the accounting acquirer of the Partnership because its ultimate parent company obtained control of the Partnership through its control of the General Partner. Consequently, the USA Compression Predecessor is deemed to be the predecessor of the Partnership for financial reporting purposes, and the historical financial statements of the Partnership reflect the USA Compression Predecessor for all periods prior to the closing of the Transactions, which occurred on the Transactions Date.

The USA Compression Predecessor's assets and liabilities retained their historical carrying values. Additionally, the Partnership's assets acquired and liabilities assumed by the USA Compression Predecessor in the business combination were recorded at their fair values measured as of the Transactions Date. The excess of the assumed purchase price of the Partnership over the estimated fair values of the Partnership's net assets acquired was recorded as goodwill. The assumed purchase price and fair value of the Partnership was determined using acceptable fair value methods. Additionally, the USA Compression Predecessor was reflected at ET LP's historical cost, and the difference between the consideration paid by the Partnership and ET LP's historical carrying values (net book value) at the Transactions Date was recorded to partners' capital.

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). As noted above, the historical condensed consolidated financial statements of the Partnership reflect the historical condensed consolidated financial statements of the USA Compression Predecessor in accordance with the applicable accounting and financial reporting guidance. Therefore, the historical condensed consolidated financial statements are comprised of the USA Compression Predecessor for periods prior to the Transactions Date. The historical condensed consolidated financial statements are also comprised of the condensed consolidated balance sheet and statement of operations of the Partnership, which includes the USA Compression Predecessor, as of and for all periods subsequent to the Transactions Date.

In the opinion of our management, such financial information reflects all normal recurring adjustments necessary for a fair presentation of these interim unaudited condensed consolidated financial statements in accordance with GAAP. Operating results for the three and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements contained in our annual report on Form 10-K for the year ended December 31, 2018 filed on February 19, 2019 (our "2018 Annual Report").

USA Compression Predecessor

ETO allocated various corporate overhead expenses to the USA Compression Predecessor based on a percentage of assets, net income (loss), or adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"). These allocations are not necessarily indicative of the cost that the USA Compression Predecessor would have incurred had it operated as an independent standalone entity. The USA Compression Predecessor also historically relied upon ETO for funding operating and capital expenditures as necessary. As a result, the historical financial statements of the USA Compression Predecessor may not fully reflect or be indicative of what the USA Compression Predecessor's balance sheet, results of operations and cash flows would have been or will be in the future.

Certain expenses incurred by ETO are only indirectly attributable to the USA Compression Predecessor. As a result, certain assumptions and estimates are made in order to allocate a reasonable share of such expenses to the USA Compression Predecessor, so that the accompanying financial statements reflect substantially all costs of doing business. The allocations and related estimates and assumptions are described more fully in Note 12.

Certain amounts of the USA Compression Predecessor's revenues are derived from related party transactions, as described more fully in Note 12.

Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of all cash balances. We consider investments in highly liquid financial instruments purchased with an original maturity of 90 days or less to be cash equivalents.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Our determination of the allowance for doubtful accounts requires us to make estimates and judgments regarding our customers' ability to pay amounts due. We continuously evaluate the financial strength of our customers based on payment history, the overall business climate in which our customers operate and specific identification of customer bad debt and make adjustments to the allowance as necessary. Our evaluation of our customers' financial strength is based on the aging of their respective receivables balance, customer correspondence, financial information and third-party credit ratings. Our evaluation of the business climate in which our customers operate is based on a review of various publicly available materials regarding our customers' industries, including the solvency of various companies in the industry.

The USA Compression Predecessor determined its allowance for doubtful accounts based upon historical write-off experience and specific identification of unrecoverable amounts.

Inventory

Inventory consists of serialized and non-serialized parts used primarily in the repair of compression units. All inventory is stated at the lower of cost or net realizable value. Serialized parts inventory is determined using the specific identification method, while non-serialized parts inventory is determined using the weighted average cost method. Purchases of inventory are considered operating activities on the unaudited condensed consolidated statements of cash flows.

Property and Equipment

Property and equipment are carried at cost except for (i) certain acquired assets which are recorded at fair value on their respective acquisition dates and (ii) impaired assets which are recorded at fair value on the last impairment evaluation date for which an adjustment was required. Overhauls and major improvements that increase the value or extend the life of compression equipment are capitalized and depreciated over three to five years. Ordinary maintenance and repairs are charged to cost of operations, exclusive of depreciation and amortization.

When property and equipment is retired or sold, its carrying value and the related accumulated depreciation are removed from our accounts and any associated gains or losses are recorded on our statements of operations in the period of sale or disposition.

Capitalized interest is calculated by multiplying the Partnership's monthly effective interest rate on outstanding debt by the amount of qualifying costs, which include upfront payments to acquire certain compression units. Capitalized interest was $0.2 million and $0.4 million for the three and six months ended June 30, 2019, respectively, and $0.1 million for the three and six months ended June 30, 2018.

Impairment of Long-Lived Assets

Long-lived assets with recorded values that are not expected to be recovered through future cash flows are written-down to estimated fair value. We test long-lived assets for impairment when events or circumstances indicate that the assets' carrying value may not be recoverable or will no longer be utilized in the operating fleet. The most common circumstance requiring compression units to be evaluated for impairment is when idle units do not meet the desired performance characteristics of our active revenue generating horsepower.

The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value exceeds the sum of the undiscounted cash flows associated with the operating fleet, an impairment loss equal to the amount of the carrying value exceeding the fair value of the asset is recognized. The fair value of the asset is measured using quoted market prices or, in the absence of quoted market prices, based on an estimate of discounted cash flows, the expected net sale proceeds compared to the other similarly configured fleet units we recently sold 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.

Refer to Note 5 for more detailed information about impairment charges during the six months ended June 30, 2019.

Identifiable Intangible Assets

Identifiable intangible assets are recorded at cost and amortized using the straight-line method over their estimated useful lives, which is the period over which the assets are expected to contribute directly or indirectly to our future cash flows. The estimated useful lives of our intangible assets range from 15 to 25 years.

We assess identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We did not record any impairment of identifiable intangible assets during the three and six months ended June 30, 2019 and 2018.

Goodwill

Goodwill represents consideration paid in excess of the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized, but is reviewed for impairment annually based on the carrying values as of October 1, or more frequently if impairment indicators arise that suggest the carrying value of goodwill may not be recovered.

We did not record any impairment of goodwill during the three and six months ended June 30, 2019 and 2018.

Revenue Recognition

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of our services or goods. Revenue is measured at the amount of consideration we expect to receive in exchange for providing services or transferring goods. Incidental items, if any, that are immaterial in the context of the contract are recognized as expenses.

Pass Through Taxes

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

Fair Value Measurements

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

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

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

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

As of June 30, 2019, our financial instruments consisted primarily of cash and cash equivalents, trade accounts receivable, trade accounts payable and long-term debt. The book values of cash and cash equivalents, trade accounts receivable and trade accounts payable are representative of fair value due to their short-term maturities. The carrying amount of our revolving credit facility approximates fair value due to the floating interest rates associated with the debt.

The fair value of our Senior Notes 2026 and Senior Notes 2027, both defined in Note 8, were estimated using quoted prices in inactive markets and are considered Level 2 measurements.

The following table summarizes the aggregate principal amount and fair value of these assets and liabilities (in thousands):

	June 30, 2019 Level 2	December 31, 2018 Level 2
Senior Notes 2026, aggregate principal	$ 725,000	$ 725,000
Fair value of Senior Notes 2026	765,781	696,000
Senior Notes 2027, aggregate principal	$ 750,000	$ —
Fair value of Senior Notes 2027	790,313	—

Use of Estimates

Our unaudited condensed consolidated financial statements have been prepared in conformity with GAAP, which includes the use of estimates and assumptions by management that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities that existed at the date of the unaudited condensed consolidated financial statements. Although these estimates were based on management's available knowledge of current and expected future events, actual results could differ from these estimates.

Operating Segment

We operate in a single business segment, the compression services business.

Adoption of Lease Accounting Standard

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which has amended the FASB Accounting Standards Codification ("ASC") and introduced ASC Topic 842, Leases ("ASC Topic 842"). On January 1, 2019, we adopted ASC Topic 842, which is effective for interim and annual reporting periods beginning on or after December 15, 2018. ASC Topic 842 requires entities to recognize lease assets and liabilities on the balance sheet for all leases with a term of more than one year, including operating leases, which historically were not recorded on the balance sheet in accordance with the prior standard.

To adopt ASC Topic 842, we recognized a cumulative catch-up adjustment to the opening balance sheet presented January 1, 2019 related to certain leases that existed as of that date. As permitted, we have not retrospectively modified

our consolidated financial statements for comparative purposes. The adoption of the standard had an impact on our consolidated balance sheet, but did not have an impact on our consolidated statements of operations or cash flows. As a result of adoption, we have recorded additional net right-of-use ("ROU") lease assets and lease liabilities of approximately $3.5 million and $3.7 million, respectively, as of January 1, 2019. In addition, we have updated our business processes, systems and internal controls to support the on-going reporting requirements under the new standard.

To adopt ASC Topic 842, we elected the package of practical expedients permitted under the transition guidance within the standard. The expedient package allowed us not to reassess whether existing contracts contained a lease, the lease classification of existing leases and initial direct cost for existing leases. In addition to the package of practical expedients, we have elected not to capitalize amounts pertaining to leases with terms less than twelve months, to use the portfolio approach to determine discount rates, not to separate non-lease components from lease components and not to apply the use of hindsight to the active lease population.

Cumulative-effect adjustments made to the opening balance sheet at January 1, 2019 were as follows (in thousands):

Assets (liabilities)	Balance Sheet Line Item	Balance at December 31, 2018, as Previously Reported	Adjustments Due to ASC Topic 842 (Leases)	Balance at January 1, 2019
Operating lease right-of-use assets	Other assets	$ —	$ 3,502	$ 3,502
Operating lease liabilities, current	Accrued liabilities	—	(2,015)	(2,015)
Operating lease liabilities, long-term	Other liabilities	—	(1,706)	(1,706)

Additional disclosures related to lease accounting are included in Note 7.

(3) Trade Accounts Receivable

The allowance for doubtful accounts, which was $1.8 million and $1.7 million at June 30, 2019 and December 31, 2018, respectively, is our best estimate of the amount of probable credit losses included in our existing accounts receivable.

During the three months ended June 30, 2019, we recognized bad debt expense of $0.3 million and wrote-off $0.1 million of receivables on accounts previously reserved, resulting in a $0.2 million increase in our allowance for doubtful accounts. During the six months ended June 30, 2019, we recognized bad debt expense of $0.3 million and wrote-off $0.2 million of receivables on accounts previously reserved, resulting in a $0.1 million increase in our allowance for doubtful accounts.

During the three and six months ended June 30, 2018, we increased our allowance for doubtful accounts by $0.7 million and $0.3 million, respectively, due primarily to estimated uncollectible amounts from customers of the USA Compression Predecessor.

(4) Inventory

Components of inventory are as follows (in thousands):

	June 30, 2019	December 31, 2018
Serialized parts	$ 47,451	$ 45,568
Non-serialized parts	48,081	43,439
Total Inventory	$ 95,532	$ 89,007

(5) Property and Equipment and Identifiable Intangible Assets

Property and Equipment

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

	June 30, 2019	December 31, 2018
Compression and treating equipment	$ 3,312,060	$ 3,239,831
Furniture and fixtures	1,129	1,129
Automobiles and vehicles	31,313	32,490
Computer equipment	56,421	54,806
Buildings	8,639	9,314
Land	77	77
Leasehold improvements	6,103	5,377
Total Property and equipment, gross	3,415,742	3,343,024
Less: accumulated depreciation and amortization	(916,048)	(821,536)
Total Property and equipment, net	$ 2,499,694	$ 2,521,488

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Compression equipment, acquired new	25 years
Compression equipment, acquired used	5 - 25 years
Furniture and fixtures	3 - 10 years
Vehicles and computer equipment	1 - 10 years
Buildings	5 years
Leasehold improvements	5 years

Depreciation expense on property and equipment was $49.4 million and $101.0 million for the three and six months ended June 30, 2019, respectively. We recognized $45.0 million and $84.5 million of depreciation expense on property and equipment for the three and six months ended June 30, 2018, respectively.

As of June 30, 2019 and December 31, 2018, there was $7.5 million and $7.9 million, respectively, of property and equipment purchases in accounts payable and accrued liabilities.

During the three and six months ended June 30, 2019, we recognized $1.5 million and $1.6 million of net losses on disposition of assets, respectively.

During the three and six months ended June 30, 2018, we recognized $0.7 million and $11.1 million of net losses on disposition of assets, respectively. The net loss for the six months ended June 30, 2018 was primarily attributable to disposals of various property and equipment by the USA Compression Predecessor.

During the six months ended June 30, 2019, we evaluated the future deployment of our idle fleet under then-current market conditions. As a result, we recorded $3.2 million in impairment of compression equipment for the six months ended June 30, 2019. The primary causes for this impairment were: (i) units were not considered marketable in the foreseeable future, (ii) units were subject to excessive maintenance costs or (iii) units were unlikely to be accepted by customers due to certain performance characteristics of the unit, such as the inability to meet then-current quoting criteria without excessive retrofitting costs. These compression units were written down to their respective estimated salvage values, if any.

We did not record any impairment of long-lived assets during the three months ended June 30, 2019 or the three and six months ended June 30, 2018.

Identifiable Intangible Assets

Identifiable intangible assets, net consisted of the following (in thousands):

	Customer Relationships	Trade Names	Total
Net Balance at December 31, 2018	$ 355,161	$ 37,389	$ 392,550
Amortization expense	(13,052)	(1,638)	(14,690)
Net Balance at June 30, 2019	$ 342,109	$ 35,751	$ 377,860

Accumulated amortization of intangible assets was $172.8 million and $158.1 million as of June 30, 2019 and December 31, 2018, respectively. The expected amortization of the intangible assets for each of the five succeeding years is $29.4 million.

(6) Other Current Liabilities

As of June 30, 2019, accrued liabilities included $44.9 million of accrued sales tax contingency (Note 13), $30.3 million of accrued interest expense, $11.3 million of accrued payroll and benefits and $7.5 million of accrued capital expenditures.

As of December 31, 2018, accrued liabilities included $44.9 million of accrued sales tax contingency (Note 13), $16.4 million of accrued interest expense, $10.7 million of accrued payroll and benefits and $7.9 million of accrued capital expenditures.

(7) Lease Accounting

Lessee Accounting

We maintain both finance leases and operating leases, primarily related to office space, warehouse facilities and certain corporate equipment. Our leases have remaining lease terms of up to seven years, some of which include options that permit renewals for additional periods.

We determine if an arrangement is a lease at inception. Operating leases are included in other assets, accrued liabilities and other liabilities in our unaudited condensed consolidated balance sheets. Finance leases are included in property and equipment, accrued liabilities and other liabilities in our unaudited condensed consolidated balance sheets.

ROU lease assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available on the commencement date in determining the present value of lease payments. ROU lease assets also include any lease payments made and exclude lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Variable costs such as our proportionate share of actual costs for utilities, common area maintenance, property taxes and insurance are not included in the lease liability and are recognized in the period in which they are incurred.

For short-term leases (leases that have terms of twelve months or less upon commencement), lease payments are recognized on a straight line basis and no ROU assets are recorded. For certain equipment leases, such as office equipment, we account for the lease and non-lease components as a single lease component.

Components of lease expense consisted of the following (in thousands):

	Income Statement Line Item	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease costs:			
Operating lease cost	Cost of operations, exclusive of depreciation and amortization	$ 282	$ 655
Operating lease cost	Selling, general and administrative	209	475
Total operating lease costs		491	1,130
Finance lease costs:			
Amortization of lease assets	Depreciation and amortization	591	1,410
Short-term lease costs:			
Short-term lease cost	Cost of operations, exclusive of depreciation and amortization	77	144
Short-term lease cost	Selling, general and administrative	8	9
Total short-term lease costs		85	153
Variable lease costs:			
Variable lease cost	Cost of operations, exclusive of depreciation and amortization	129	146
Variable lease cost	Selling, general and administrative	383	716
Total variable lease costs		512	862
Total lease costs		$ 1,679	$ 3,555

Supplemental balance sheet information related to leases consisted of the following (in thousands):

Operating Leases Assets (liabilities)	**Balance Sheet Line Item**	**June 30, 2019**	**December 31, 2018**
Operating lease ROU assets	Other assets	$ 2,473	$ —
Operating lease liabilities, current	Accrued liabilities	(1,113)	—
Operating lease liabilities, long-term	Other liabilities	(1,482)	—

Finance Leases Assets (liabilities)	**June 30, 2019**	**December 31, 2018**
Property and equipment, gross	$ 7,268	$ 7,683
Accumulated depreciation	(5,617)	(4,882)
Property and equipment, net	1,651	2,801
Accrued liabilities	(987)	(1,085)
Other liabilities	(1,821)	(2,114)

Other supplemental information related to leases was as follows:

Weighted Average Remaining Lease Term	**June 30, 2019**
Operating leases	4 years
Finance leases	4 years

Weighted Average Discount Rate	**June 30, 2019**
Operating leases	3.2%
Finance leases	2.5%

Supplemental cash flow information related to leases consisted of the following (in thousands):

		Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	(1,198)
Operating cash flows from finance leases		(456)
Financing cash flows from finance leases		(551)
ROU assets obtained in exchange for lease obligations:		
Operating leases	$	29
Finance leases		259

Maturities of lease liabilities consisted of the following (in thousands):

	Operating Leases		Finance Leases		Total	
2019 (remainder)	$	860	$	510	$	1,370
2020		595		814		1,409
2021		390		567		957
2022		276		398		674
2023		241		369		610
Thereafter		405		284		689
Total lease payments		2,767		2,942		5,709
Less: present value discount		(172)		(134)		(306)
Present value of lease liabilities	$	2,595	$	2,808	$	5,403

As of June 30, 2019, we have entered into additional operating leases that have not yet commenced with an estimated present value of $23.7 million. These operating leases will be commencing over the third quarter of 2019 through the first quarter of 2020 and the terms range from seven to ten years.

Lessor Accounting

We granted a bargain purchase option to a customer with respect to certain compressor packages leased to the customer. The bargain purchase option provides the customer with an option to acquire the equipment at a value significantly less than the fair market value at the end of the lease term in 2021.

We accounted for this option as a sales type lease resulting in a current installment receivable included in other accounts receivable of $3.8 million and $3.7 million and a long-term installment receivable of $5.0 million and $6.9 million as of June 30, 2019 and December 31, 2018, respectively.

Revenue and interest income related to the lease is recognized over the lease term. We recognize maintenance revenue within contract operations revenue and interest income within interest expense, net. Maintenance revenue was $0.3 million and $0.6 million, respectively, for the three and six months ended June 30, 2019. Interest income was $0.2 million and $0.4 million, respectively, for the three and six months ended June 30, 2019.

We recognized $0.3 million of maintenance revenue and $0.3 million of interest income for the three and six months ended June 30, 2018.

Lease payments expected to be received subsequent to June 30, 2019 are as follows (in thousands):

	Lease Payments
2019 (remainder)	$ 2,837
2020	5,673
2021	3,356
Total installment receivables	11,866
Less: present value discount	(3,051)
Present value of installment receivables	$ 8,815

ASC Topic 842 provides lessors with a practical expedient to not separate non-lease components from the associated lease components and, instead, to account for those components as a single component if the non-lease components otherwise would be accounted for under ASC Topic 606 *Revenue from Contracts with Customers* ("ASC Topic 606") and certain conditions are met. Our contract operations services agreements meet these conditions and we consider the predominant component to be the non-lease components, resulting in the ongoing recognition of revenue following ASC Topic 606 guidance.

(8) Long-Term Debt

Our long-term debt, of which there is no current portion, consisted of the following (in thousands):

	June 30, 2019	December 31, 2018
Revolving credit facility	$ 363,352	$ 1,049,547
Senior Notes 2026, aggregate principal	725,000	725,000
Senior Notes 2027, aggregate principal	750,000	—
Less: deferred financing costs, net of amortization	(27,246)	(15,489)
Total Senior Notes, net	1,447,754	709,511
Total long-term debt, net	$ 1,811,106	$ 1,759,058

Revolving Credit Facility

As of June 30, 2019, we were in compliance with all of our covenants under the Sixth Amended and Restated Credit Agreement (the "Credit Agreement"). The Credit Agreement has an aggregate commitment of $1.6 billion (subject to availability under our borrowing base), with a further potential increase of $400 million, and has a maturity date of April 2, 2023.

As of June 30, 2019, we had outstanding borrowings under the Credit Agreement of $363.4 million, $1.2 billion of borrowing base availability and, subject to compliance with the applicable financial covenants, available borrowing capacity of $438.9 million. Our interest rate in effect for all borrowings under the Credit Agreement as of June 30, 2019 was 5.10%, with a weighted average interest rate of 5.06% for the six months ended June 30, 2019. There were no letters of credit issued as of June 30, 2019.

The Credit Agreement permits us to make distributions of available cash to unitholders so long as (a) no default under the facility has occurred, is continuing or would result from the distribution, (b) immediately prior to and after giving effect to such distribution, we are in compliance with the facility's financial covenants and (c) immediately after giving effect to such distribution, we have availability under the Credit Agreement of at least $100 million.

The Credit Agreement also contains various financial covenants, including covenants requiring us to maintain:

- a minimum EBITDA to interest coverage ratio of 2.5 to 1.0, determined as of the last day of each fiscal quarter; and
- a maximum funded debt to EBITDA ratio, determined as of the last day of each fiscal quarter, for the annualized trailing three months of (a) 5.5 to 1.0 through the end of the fiscal quarter ending December 31, 2019 and (b) 5.00 to 1.0 thereafter, in each case subject to a provision for increases to such thresholds by 0.5 in connection

with certain future acquisitions for the six consecutive month period following the period in which any such acquisition occurs.

The Credit Agreement matures in April 2023 and we expect to maintain it for the term. The Credit Agreement is a "revolving credit facility" that includes a lock box arrangement, whereby remittances from customers are forwarded to a bank account controlled by the administrative agent and are applied to reduce borrowings under the facility.

Senior Notes 2026

On March 23, 2018, the Partnership and its wholly owned finance subsidiary, USA Compression Finance Corp. ("Finance Corp"), co-issued $725.0 million aggregate principal amount of senior notes due on April 1, 2026 (the "Senior Notes 2026"). The Senior Notes 2026 accrue interest at the rate of 6.875% per year. Interest on the Senior Notes 2026 is payable semi-annually in arrears on each of April 1 and October 1.

The indenture governing the Senior Notes 2026 (the "2026 Indenture") contains a Fixed Charge Coverage Ratio (as defined in the 2026 Indenture) that we must comply with in order to make certain Restricted Payments (as defined in the 2026 Indenture).

The Senior Notes 2026 are fully and unconditionally guaranteed (the "2026 Guarantees"), jointly and severally, on a senior unsecured basis by all of our existing subsidiaries (other than Finance Corp), and will be fully and unconditionally guaranteed, jointly and severally, by each of our future restricted subsidiaries that either borrows under, or guarantees, our revolving credit facility or guarantees certain of our other indebtedness (collectively, the "Guarantors"). The Senior Notes 2026 and the 2026 Guarantees are general unsecured obligations and rank equally in right of payment with all of the Guarantors' and our existing and future senior indebtedness and senior to the Guarantors' and our future subordinated indebtedness, if any. The Senior Notes 2026 and the 2026 Guarantees are effectively subordinated in right of payment to all of the Guarantors' and our existing and future secured debt, including debt under the Credit Agreement and guarantees thereof, to the extent of the value of the assets securing such debt, and are structurally subordinated to all indebtedness of any of our subsidiaries that do not guarantee the Senior Notes 2026.

We have no assets or operations independent of our subsidiaries, and there are no significant restrictions upon our ability to obtain funds from our subsidiaries by dividend or loan. Each of the Guarantors is 100% owned by us. None of the assets of our subsidiaries represent restricted net assets pursuant to Rule 4-08(e)(3) of Regulation S-X under the Securities Act of 1933, as amended (the "Securities Act").

On January 14, 2019, the Partnership closed an exchange offer whereby holders of the Senior Notes 2026 exchanged all of the Senior Notes 2026 for an equivalent amount of senior notes ("Exchange Notes") registered under the Securities Act. The Exchange Notes are substantially identical to the Senior Notes 2026, except that the Exchange Notes have been registered with the SEC and do not contain the transfer restrictions, restrictive legends, registration rights or additional interest provisions of the Senior Notes 2026.

Senior Notes 2027

On March 7, 2019, the Partnership and Finance Corp co-issued $750.0 million aggregate principal amount of senior notes due on September 1, 2027 (the "Senior Notes 2027"). The Senior Notes 2027 accrue interest from March 7, 2019 at the rate of 6.875% per year. Interest on the Senior Notes 2027 is payable semi-annually in arrears on each of March 1 and September 1, commencing on September 1, 2019.

At any time prior to September 1, 2022, we may redeem up to 35% of the aggregate principal amount of the Senior Notes 2027 at a redemption price equal to 106.875% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, in an amount not greater than the net proceeds from one or more equity offerings, provided that at least 65% of the aggregate principal amount of the Senior Notes 2027 remains outstanding immediately after the occurrence of such redemption (excluding Senior Notes 2027 held by us and our subsidiaries) and redemption occurs within 180 days of the date of the closing of such equity offering.

Prior to September 1, 2022, we may redeem all or a part of the Senior Notes 2027 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 September 1, 2022, we may redeem all or a part of the Senior Notes 2027 at redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest, if any, to the applicable redemption date, if redeemed during the twelve-month period beginning on September 1 of the years indicated below:

Year	Percentages
2022	105.156 %
2023	103.438 %
2024	101.719 %
2025 and thereafter	100.000 %

If we experience a change of control followed by a ratings decline, unless we have previously exercised or concurrently exercise our right to redeem the Senior Notes 2027 (as described above), we may be required to offer to repurchase the Senior Notes 2027 at a purchase price equal to 101% of the principal amount repurchased, plus accrued and unpaid interest, if any, to the repurchase date.

The indenture governing the Senior Notes 2027 (the "2027 Indenture") contains a Fixed Charge Coverage Ratio (as defined in the 2027 Indenture) that we must comply with in order to make certain Restricted Payments (as defined in the 2027 Indenture).

In connection with issuing the Senior Notes 2027, we incurred certain issuance costs in the amount of $13.1 million, which is amortized over the term of the Senior Notes 2027.

The Senior Notes 2027 are fully and unconditionally guaranteed (the "2027 Guarantees"), jointly and severally, on a senior unsecured basis by the Guarantors. The Senior Notes 2027 and the 2027 Guarantees are general unsecured obligations and rank equally in right of payment with all of the Guarantors' and our existing and future senior indebtedness, including the Exchange Notes, and senior to the Guarantors' and our future subordinated indebtedness, if any. The Senior Notes 2027 and the 2027 Guarantees are effectively subordinated in right of payment to all of the Guarantors' and our existing and future secured debt, including debt under the Credit Agreement and guarantees thereof, to the extent of the value of the assets securing such debt, and are structurally subordinated to all indebtedness of any of our subsidiaries that do not guarantee the Senior Notes 2027.

We have no assets or operations independent of our subsidiaries, and there are no significant restrictions upon our ability to obtain funds from our subsidiaries by dividend or loan. Each of the Guarantors is 100% owned by us. None of the assets of our subsidiaries represent restricted net assets pursuant to Rule 4-08(e)(3) of Regulation S-X under the Securities Act.

(9) Preferred Units and Warrants

On the Transactions Date, we completed a private placement of $500 million in the aggregate of (i) newly authorized and established Series A Preferred Units (the "Preferred Units") and (ii) warrants to purchase common units (the "Warrants") pursuant to a Series A Preferred Unit and Warrant Purchase Agreement dated January 15, 2018, with certain investment funds managed or advised by EIG Global Energy Partners (collectively, the "Preferred Unitholders"). We issued 500,000 Preferred Units with a face value of $1,000 per Preferred Unit and issued two tranches of Warrants to the Preferred Unitholders, which included Warrants to purchase 5,000,000 common units with a strike price of $17.03 per unit and 10,000,000 common units with a strike price of $19.59 per unit. The Warrants may be exercised by the holders thereof at any time beginning April 2, 2019 and before April 2, 2028.

The Preferred Units rank senior to the common units with respect to distributions and rights upon liquidation. The Preferred Unitholders are entitled to receive cumulative quarterly cash distributions equal to $24.375 per Preferred Unit. The distribution attributable to the quarter ended June 30, 2019 will be paid on August 9, 2019 to Preferred Unitholders of record as of the close of business on July 29, 2019.

The Preferred Units are presented as temporary equity in the mezzanine section of the unaudited condensed consolidated balance sheets because the redemption provisions exercisable on or after April 2, 2028 are outside the Partnership's control. The Preferred Units have been recorded at their issuance date fair value, net of issuance cost. Net income allocations increase the carrying value and declared distributions decrease the carrying value of the Preferred

Units. As the Preferred Units are not currently redeemable and it is not probable that they will become redeemable by us, adjustment to the initial carrying amount is not necessary and would only be required if it becomes probable that the Preferred Units would become redeemable by us.

Changes in the Preferred Units balance from December 31, 2018 through June 30, 2019 are summarized below (in thousands):

	Preferred Units
Balance at December 31, 2018	$ 477,309
Net income allocated to Preferred Units	24,375
Cash distributions on Preferred Units	(24,375)
Balance at June 30, 2019	$ 477,309

The Warrants are presented within the equity section of the unaudited condensed consolidated balance sheets in accordance with GAAP as they are indexed to the Partnership's common units and require physical settlement or net common unit settlement.

Refer to Note 12 for information about the rights EIG Veteran Equity Aggregator, L.P. (along with its affiliated funds, "EIG") has to designate one of the members of the Board of Directors of USA Compression GP, LLC (the "Board").

(10) Partners' Capital

Common Units

As of June 30, 2019, we had 90,201,799 common units outstanding. As of June 30, 2019, ETO held 39,658,263 common units, including 8,000,000 common units held by the General Partner and controlled by ETO.

Class B Units

As of June 30, 2019, we had 6,397,965 Class B Units outstanding which represented limited partner interests in the Partnership, all of which were held by ETO. Each Class B Unit automatically converted into one common unit on July 30, 2019. Each Class B Unit had all of the rights and obligations of a common unit except the right to participate in distributions made prior to conversion into a common unit.

Cash Distributions

As the USA Compression Predecessor is deemed to be the predecessor of the Partnership for financial reporting purposes, cash distributions made by the Partnership in periods prior to the Transactions Date are not included within the results of operations presented within the unaudited condensed consolidated financial statements for the six months ended June 30, 2018.

We have declared quarterly distributions per unit to our limited partner unitholders of record, including holders of our common units and phantom units, as follows (dollars in millions, except distribution per unit):

Payment Date	Distribution per Limited Partner Unit	Amount Paid to Common Unitholders	Amount Paid to Phantom Unitholders	Total Distribution
February 8, 2019	$ 0.525	$ 47.2	$ 0.7	$ 47.9
May 10, 2019	$ 0.525	$ 47.3	$ 0.6	$ 47.9

Announced Quarterly Distribution

On July 18, 2019, we announced a cash distribution of $0.525 per unit on our common units. The distribution will be paid on August 9, 2019 to common unitholders of record as of the close of business on July 29, 2019.

Distribution Reinvestment Plan

During the six months ended June 30, 2019, distributions of $0.5 million were reinvested under the Distribution Reinvestment Plan ("DRIP") resulting in the issuance of 30,241 common units.

Earnings Per Unit

The computation of earnings per unit is based on the weighted average number of participating securities outstanding during the applicable period. Basic earnings per unit is determined by dividing net income (loss) allocated to participating securities after deducting the amount distributed on Preferred Units, by the weighted average number of participating securities outstanding during the period. Net income (loss) is allocated to participating securities based on their respective shares of the distributed and undistributed earnings for the period. To the extent cash distributions exceed net income (loss) for the period, the excess distributions are allocated to all participating securities outstanding based on their respective ownership percentages. Diluted earnings per unit are computed using the treasury stock method, which considers the potential issuance of limited partner units associated with our long-term incentive plan and Warrants. The classes of participating securities include common units, Class B Units, and certain equity-based compensation awards. Unvested phantom units and unexercised Warrants are not included in basic earnings per unit, as they are not considered to be participating securities, but are included in the calculation of diluted earnings per unit to the extent that they are dilutive, and in the case of Warrants to the extent they are considered "in the money." For the three months ended June 30, 2019, approximately 172,000 incremental unvested phantom units and 40,000 incremental warrants represent the differences between our basic and diluted weighted average common units outstanding. For the six months ended June 30, 2019, approximately 86,000 incremental unvested phantom units and 20,000 incremental warrants were excluded from the calculation of diluted earnings per common unit because the impact was anti-dilutive. For the three and six months ended June 30, 2018, approximately 50,000 and 25,000 incremental unvested phantom units, respectively, and 230,000 and 115,000 incremental warrants, respectively, were excluded from the calculation of diluted earnings per common unit because the impact was anti-dilutive.

(11) Revenue Recognition

On January 1, 2018, we adopted ASC Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018.

We identified no material impact on our historical revenues upon initial application of ASC Topic 606, and as such did not recognize any cumulative catch-up effect to the opening balance of our partners' capital as of January 1, 2018. Additionally, the application of ASC Topic 606 had no material impact on any financial statement line items.

The following table disaggregates our revenue by type of service (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Contract operations revenue	$ 169,273	$ 159,574	$ 337,283	$ 233,239
Retail parts and services revenue	4,402	7,324	7,138	10,189
Total revenues	$ 173,675	$ 166,898	$ 344,421	$ 243,428

The following table disaggregates our revenue by timing of provision of services or transfer of goods (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Services provided or goods transferred at a point in time	$ 4,402	$ 7,324	$ 7,138	$ 10,189
Services provided over time:				
Primary term	106,066	80,611	203,424	114,407
Month-to-month	63,207	78,963	133,859	118,832
Total revenues	$ 173,675	$ 166,898	$ 344,421	$ 243,428

Contract assets and trade accounts receivable

We record contract assets when we have completed performance under a contract but our right to consideration is not yet unconditional. We had no contract assets as of June 30, 2019 and December 31, 2018. There were no significant changes to our trade accounts receivable balances due to contract modifications or adjustments, or changes in time frame for a right to consideration to become unconditional during the period.

Deferred revenue

We record deferred revenue when cash payments are received or due in advance of our performance. The increase in the deferred revenue balance for the six months ended June 30, 2019 is primarily driven by cash payments received or due in advance of satisfying our performance obligations under a contract. There was no significant change to our deferred revenue balance as a result of changes in time frame for a performance obligation to be satisfied during the period.

Practical expedients and exemptions

We have elected to apply the practical expedient in ASC 606-10-50-14 and as such do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

(12) Transactions with Related Parties

We provide compression services to entities affiliated with ETO, which as of June 30, 2019 owned approximately 48% of our limited partner interests, including all of the Class B Units and 100% of the General Partner. During the three and six months ended June 30, 2019, we recognized revenue of $6.3 million and $10.4 million, respectively, from such affiliated entities and we recognized revenue of $4.6 million and $8.5 million during the three and six months ended June 30, 2018, respectively. We had $2.1 million and $2.7 million in receivables as of June 30, 2019 and December 31, 2018, respectively, from such affiliated entities. Additionally, the Partnership had a $44.9 million related party receivable from ETO as of June 30, 2019 and December 31, 2018, related to indemnification for sales tax contingencies incurred by the USA Compression Predecessor. See Note 13 for more information related to such sales tax contingencies.

ETO provided certain benefits to the USA Compression Predecessor employees which did not continue following the Transactions Date. ETO provided medical, dental and other healthcare benefits to the USA Compression Predecessor employees. The total amount incurred by ETO for the benefit of the USA Compression Predecessor employees for the six months ended June 30, 2018 was $1.9 million, which was allocated to the USA Compression Predecessor and recorded in operation and maintenance and general and administrative expenses, as appropriate. ETO also provided a matching contribution to the USA Compression Predecessor employees' 401(k) accounts. The total amount of matching contributions incurred for the benefit of the USA Compression Predecessor employees for the six months ended June 30, 2018 was $0.9 million, which was allocated to the USA Compression Predecessor and recorded in operation and maintenance and general and administrative expenses, as appropriate. ETO also provided a 3% profit sharing contribution to the 401(k) accounts for all USA Compression Predecessor employees with base compensation below a specified threshold. The contribution was in addition to the 401(k) matching contribution and employees became vested in the profit sharing contribution based on years of service.

ETO allocated certain overhead costs associated with general and administrative services, including salaries and benefits, facilities, insurance, information services, human resources and other support departments to the USA Compression Predecessor which did not continue following the Transactions Date. Where costs incurred on the USA Compression Predecessor's behalf could not be determined by specific identification, the costs were primarily allocated to the USA Compression Predecessor based on an average percentage of fixed assets, net income (loss) and adjusted EBITDA. The USA Compression Predecessor believes these allocations were a reasonable reflection of the utilization of services provided. However, the allocations may not fully reflect the expenses that would have been incurred had the USA Compression Predecessor been a standalone company during the periods presented. During the six months ended June 30, 2018, ETO allocated general and administrative expenses of $1.8 million to the USA Compression Predecessor.

Pursuant to that certain Board Representation Agreement entered into by us, the General Partner, ET LP and EIG in connection with our private placement of Preferred Units and Warrants to EIG, EIG Management Company, LLC has the right to designate one of the members of the Board for so long as the holders of the Preferred Units hold more than 5% of

the Partnership's outstanding common units in the aggregate (taking into account the common units that would be issuable upon conversion of the Preferred Units and exercise of the Warrants).

(13) Commitments and Contingencies

(a) Major Customers

We did not have revenue from any single customer representing 10% or more of total revenue for the three and six months ended June 30, 2019 or 2018.

(b) Litigation

From time to time, we and our subsidiaries may be involved in various claims and litigation arising in the ordinary course of business. In management's opinion, the resolution of such matters is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

(c) Equipment Purchase Commitments

Our future capital commitments are comprised of binding commitments under purchase orders for new compression units and serialized parts ordered but not received. Those commitments as of June 30, 2019 were $82.0 million, which are expected to be settled throughout 2019 and 2020.

(d) Sales Tax Contingency

Our compliance with state and local sales tax regulations is subject to audit by various taxing authorities. The Office of the Texas Comptroller of Public Accounts ("Comptroller") has claimed that specific operational processes, which we and others in our industry regularly conduct, result in transactions that are subject to state sales taxes. We and other companies in our industry have disputed these claims based on existing tax statutes which provide for manufacturing exemptions on the transactions in question. The manufacturing exemptions are based on the fact that our natural gas compression equipment is used in the process of preparing natural gas for ultimate use and sale.

The USA Compression Predecessor has several open audits with the Comptroller for certain periods prior to the Transactions Date wherein the Comptroller has challenged the applicability of the manufacturing exemption. Any liability for the periods prior to the Transactions Date is covered by an indemnity between us and ETO. As of June 30, 2019, we have recorded a $44.9 million accrued liability and $44.9 million related party receivable from ETO.

For more information, see Note 17 to the consolidated financial statements included in our 2018 Annual Report.

(e) Self-Insurance

Effective January 1, 2019, we became self-insured for medical claims up to certain stop loss limits. Liabilities are accrued for self-insured claims when sufficient information is available to reasonably estimate the amount of the loss. As of June 30, 2019, we have recorded a $0.7 million accrued liability.

(14) Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses ("ASC Topic 326"): Measurement of Credit Losses on Financial Instruments. The amendments to ASC Topic 326 require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets. The amendments in this update are effective for interim and annual periods beginning after January 1, 2020, with early adoption permitted by one year. We plan to adopt this new standard on January 1, 2020 and expect that our adoption of this standard will not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement ("ASC Topic 820"): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments to ASC Topic 820 eliminate, add and modify certain disclosure requirements for fair value measurements as part of the FASB's disclosure framework project. The amendments in this update are effective for interim and annual periods beginning on January 1,

2020, with early adoption permitted. We are currently evaluating the impact, if any, of the amendments to ASC Topic 820 on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software ("ASC Subtopic 350-40"): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments to ASC Subtopic 350-40 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments to ASC Subtopic 350-40. The amendments in this update are effective for interim and annual periods beginning on January 1, 2020, with early adoption permitted. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the impact, if any, of the amendments to ASC Subtopic 350-40 on our consolidated financial statements.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Following the Transactions described in Note 1 to our unaudited condensed consolidated financial statements under Part I, Item 1 of this report, CDM Resource Management LLC and CDM Environmental & Technical Services LLC, which together represent the CDM Compression Business (the "USA Compression Predecessor"), has been determined to be the historical predecessor of USA Compression Partners, LP (the "Partnership") for financial reporting purposes. The USA Compression Predecessor is considered the predecessor of the Partnership because Energy Transfer LP ("ET LP"), through its wholly owned subsidiary Energy Transfer Partners, L.L.C., obtained control of the Partnership through its acquisition of USA Compression GP, LLC, the general partner of the Partnership (the "General Partner").

The closing of the Transactions occurred on April 2, 2018 (the "Transactions Date") and has been reflected in the consolidated financial statements of the Partnership.

In October 2018, Energy Transfer Equity, L.P. ("ETE") and Energy Transfer Partners, L.P. ("ETP") completed the merger of ETP with a wholly owned subsidiary of ETE in a unit-for-unit exchange (the "ETE Merger"). Following the closing of the ETE Merger, ETE changed its name to "Energy Transfer LP" ("ET LP") and ETP changed its name to "Energy Transfer Operating, L.P." ("ETO"). Upon the closing of the ETE Merger, ETE contributed to ETO 100% of the limited liability company interests in the General Partner. References herein to "ETO" refer to ETP for periods prior to the ETE Merger and ETO following the ETE Merger, and references to "ET LP" refer to ETE for periods prior to the ETE Merger and ET LP following the ETE Merger.

You should read this discussion and analysis of financial condition and results of operations in conjunction with the historical financial statements and accompanying notes included elsewhere in this report. All references in this section to the USA Compression Predecessor, as well as the terms "our," "we," "us" and "its" refer to the USA Compression Predecessor when used in an historical context or in reference to periods prior to the Transactions Date, unless the context otherwise requires or where otherwise indicated. All references in this section to the Partnership, as well as the terms "our," "we," "us" and "its" refer to USA Compression Partners, LP, together with its consolidated subsidiaries, including the USA Compression Predecessor, when used in the present or future tense and for periods subsequent to the Transactions Date, unless the context otherwise requires or where otherwise indicated.

This report contains "forward-looking statements." All statements other than statements of historical fact contained in this report are forward-looking statements, including, without limitation, statements regarding our plans, strategies, prospects and expectations concerning our business, results of operations and financial condition. You can identify many of these statements by looking for words such as "believe," "expect," "intend," "project," "anticipate," "estimate," "continue," "if," "outlook," "will," "could," "should," or similar words or the negatives thereof.

Known material factors that could cause our actual results to differ from those in these forward-looking statements are described in Part II, Item 1A ("Risk Factors") and elsewhere in this report. Important factors that could cause our actual results to differ materially from the expectations reflected in these forward-looking statements include, among other things:

- changes in general economic conditions and changes in economic conditions of the crude oil and natural gas industries specifically;
- competitive conditions in our industry;
- changes in the long-term supply of and demand for crude oil and natural gas;
- our ability to realize the anticipated benefits of acquisitions;
- actions taken by our customers, competitors and third-party operators;
- the deterioration of the financial condition of our customers;
- changes in the availability and cost of capital;
- operating hazards, natural disasters, weather-related delays, casualty losses and other matters beyond our control;

- the effects of existing and future laws and governmental regulations; and
- the effects of future litigation.

All forward-looking statements included in this report are based on information available to us on the date of this report and speak only as of the date of this report. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

Overview

We provide compression services in a number of shale plays throughout the U.S., including the Utica, Marcellus, Permian Basin, Delaware Basin, Eagle Ford, Mississippi Lime, Granite Wash, Woodford, Barnett, Haynesville, Niobrara and Fayetteville shales. Demand for our services is driven by the domestic production of natural gas and crude oil; as such, we have focused our activities in areas of attractive natural gas and crude oil production growth, which are generally found in these shale and unconventional resource plays. According to studies promulgated by the Energy Information Agency, the production and transportation volumes in these shale plays are expected to increase over the long term due to the comparatively attractive economic returns versus returns achieved in many conventional basins. Furthermore, the changes in production volumes and pressures of shale plays over time require a wider range of compression services than in conventional basins. We believe we are well-positioned to meet these changing operating conditions due to the flexibility of our compression units. While our business focuses largely on compression services serving infrastructure applications, including centralized natural gas gathering systems and processing facilities, which utilize large horsepower compression units, typically in shale plays, we also provide compression services in more mature conventional basins, including gas lift applications on crude oil wells targeted by horizontal drilling techniques. Gas lift, a process by which natural gas is injected into the production tubing of an existing producing well, in order to reduce the hydrostatic pressure and allow the oil to flow at a higher rate, and other artificial lift technologies are critical to the enhancement of oil production from horizontal wells operating in tight shale plays.

Factors Affecting the Comparability of our Operating Results

As described above, the USA Compression Predecessor has been deemed to be the accounting acquirer of the Partnership in accordance with applicable business combination accounting guidance, and, as a result, the historical financial statements reflect the results of operations of the USA Compression Predecessor for periods prior to the Transactions Date. Therefore, the Partnership's future results of operations may not be comparable to the USA Compression Predecessor's historical results of operations for the reasons described below.

The revenues generated by the Partnership consist of the revenues from compression services as well as related ancillary revenues, including those generated by the USA Compression Predecessor, subsequent to the Transactions Date. The historical revenues included within the Partnership's financial statements relating to periods prior to the Transactions Date are only comprised of those of the USA Compression Predecessor.

Additionally, selling, general and administrative expenses will not be comparable to the selling, general and administrative expenses previously allocated to the USA Compression Predecessor by ETO. The Partnership's selling, general and administrative expenses will also not be comparable to the historical USA Compression Predecessor's selling, general and administrative expenses because the Partnership's selling, general and administrative expenses will include the expenses associated with being a publicly traded master limited partnership, whereas the USA Compression Predecessor was operated as a component of a larger company.

The Partnership incurs interest on its long-term debt and makes distributions to its unitholders. The USA Compression Predecessor held no long-term debt and had no outstanding publicly traded equity securities. As a result, the Partnership's long-term debt and related charges will not be comparable to the USA Compression Predecessor's historical long-term debt and related charges.

Operating Highlights

The following table summarizes certain horsepower and horsepower utilization percentages for the periods presented and excludes certain gas treating assets for which horsepower is not a relevant metric.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Fleet horsepower (at period end) (1)	3,657,362	3,559,987	3,657,362	3,559,987
Total available horsepower (at period end) (2)	3,709,662	3,684,987	3,709,662	3,684,987
Revenue generating horsepower (at period end) (3)	3,259,795	3,156,868	3,259,795	3,156,868
Average revenue generating horsepower (4)	3,270,379	3,137,019	3,275,490	2,276,865
Average revenue per revenue generating horsepower per month (5)	$ 16.60	$ 15.77	$ 16.53	$ 15.88
Revenue generating compression units (at period end)	4,518	4,811	4,518	4,811
Average horsepower per revenue generating compression unit (6)	720	653	717	668
Horsepower utilization (7):				
At period end	94.5 %	91.5 %	94.5 %	91.5 %
Average for the period (8)	94.6 %	91.5 %	94.4 %	89.5 %

(1) Fleet horsepower is horsepower for compression units that have been delivered to us (and excludes units on order). As of June 30, 2019, we had approximately 95,000 horsepower on order, all of which is expected for delivery throughout 2019 and 2020.

(2) Total available horsepower is revenue generating horsepower under contract for which we are billing a customer, horsepower in our fleet that is under contract but is not yet generating revenue, horsepower not yet in our fleet that is under contract but not yet generating revenue and that is subject to a purchase order, and idle horsepower. Total available horsepower excludes new horsepower on order for which we do not have an executed compression services contract.

(3) Revenue generating horsepower is horsepower under contract for which we are billing a customer.

(4) Calculated as the average of the month-end revenue generating horsepower for each of the months in the period.

(5) Calculated as the average of the result of dividing the contractual monthly rate for all units at the end of each month in the period by the sum of the revenue generating horsepower at the end of each month in the period.

(6) Calculated as the average of the month-end revenue generating horsepower per revenue generating compression unit for each of the months in the period.

(7) Horsepower utilization is calculated as (i) the sum of (a) revenue generating horsepower, (b) horsepower in our fleet that is under contract but is not yet generating revenue, and (c) horsepower not yet in our fleet that is under contract, not yet generating revenue and that is subject to a purchase order, divided by (ii) total available horsepower less idle horsepower that is under repair. Horsepower utilization based on revenue generating horsepower and fleet horsepower as of June 30, 2019 and 2018 was 89.1% and 88.7%, respectively.

(8) Calculated as the average utilization for the months in the period based on utilization at the end of each month in the period. Average horsepower utilization based on revenue generating horsepower and fleet horsepower for the three months ended June 30, 2019 and 2018 was 89.9% and 88.3%, respectively. Average horsepower utilization based on revenue generating horsepower and fleet horsepower for the six months ended June 30, 2019 and 2018 was 90.3% and 86.3%, respectively.

The 2.7% increase in fleet horsepower as of June 30, 2019 over the fleet horsepower as of June 30, 2018 was attributable to compression units added to our fleet to meet incremental demand by new and current customers for our compression services. The 4.3% increase in average revenue generating horsepower during the three months ended June 30, 2019 over June 30, 2018 was primarily due to organic growth in our large horsepower fleet. The 43.9% increase in average revenue generating horsepower during the six months ended June 30, 2019 over June 30, 2018 was primarily due to the addition of the Partnership's historical assets, in addition to organic growth in our large horsepower fleet. The 5.3% increase in average revenue per revenue generating horsepower per month during the three months ended June 30, 2019 over June 30, 2018 was primarily due to contracts on new compression units as well as selective price increases on the existing fleet. The 4.1% increase in average revenue per revenue generating horsepower per month during the six months ended June 30, 2019 over June 30, 2018 was primarily due to the addition of the Partnership's historical assets, in addition to contracts on new compression units and selective price increases on the existing fleet.

Average horsepower utilization increased to 94.6% during the three months ended June 30, 2019 compared to 91.5% during the three months ended June 30, 2018. The 3.1% increase in average horsepower utilization is primarily

attributable to the increased demand for our services commensurate with increased operating activity in the oil and gas industry. The above noted fluctuation describes the change in period end horsepower utilization between the six months ended June 30, 2019 and 2018 as well. Average horsepower utilization increased to 94.4% during the six months ended June 30, 2019 compared to 89.5% during the six months ended June 30, 2018. The 4.9% increase in average horsepower utilization is primarily attributable to the higher utilization of the Partnership's fleet that was added to the USA Compression Predecessor's fleet after the Transactions Date, which resulted in an increase in total active horsepower as a percentage of total fleet horsepower during the six months ended June 30, 2019.

Financial Results of Operations

Three months ended June 30, 2019 compared to the three months ended June 30, 2018

The following table summarizes our results of operations for the periods presented (dollars in thousands):

	Three Months Ended June 30,		Percent
	2019	2018	Change
Revenues:			
Contract operations	$ 162,937	$ 155,261	4.9 %
Parts and service	4,400	7,074	(37.8)%
Related party	6,338	4,563	38.9 %
Total revenues	173,675	166,898	4.1 %
Costs and expenses:			
Cost of operations, exclusive of depreciation and amortization	56,245	57,533	(2.2)%
Gross operating margin	117,430	109,365	7.4 %
Other operating and administrative costs and expenses:			
Selling, general and administrative	16,210	27,177	(40.4)%
Depreciation and amortization	56,783	52,868	7.4 %
Loss on disposition of assets	1,546	731	111.5 %
Total other operating and administrative costs and expenses	74,539	80,776	(7.7)%
Operating income	42,891	28,589	50.0 %
Other income (expense):			
Interest expense, net	(32,679)	(25,682)	27.2 %
Other	12	19	(36.8)%
Total other expense	(32,667)	(25,663)	27.3 %
Net income before income tax expense (benefit)	10,224	2,926	249.4 %
Income tax expense (benefit)	275	(271)	201.5 %
Net income	$ 9,949	$ 3,197	211.2 %

Contract operations revenue. During the three months ended June 30, 2019, we experienced a year-to-year increase in demand for our compression services driven by increased operating activity in the oil and gas industry, resulting in an increase of $7.7 million in contract operations revenue. Average revenue generating horsepower increased 4.3% during the three months ended June 30, 2019 over June 30, 2018, while average revenue per revenue generating horsepower per month increased from $15.77 for the three months ended June 30, 2018 to $16.60 for the three months ended June 30, 2019, an increase of 5.3%.

Parts and service revenue. The $2.7 million decrease in parts and service revenue was primarily attributable to a decrease in maintenance work performed on units at our customers' locations that are outside the scope of our core maintenance activities and offered as a courtesy to our customers, and freight and crane charges that are directly reimbursable by customers. Demand for retail parts and services fluctuates from period to period based on the varying needs of our customers.

Related party revenue. Related party revenue was earned through related party transactions in the ordinary course of business with various affiliated entities of ETO. The $1.8 million increase in related party revenue was primarily attributable to additional compression service demand from such affiliates.

Cost of operations, exclusive of depreciation and amortization. The $1.3 million decrease in cost of operations was driven by (1) a $5.3 million decrease in ad valorem tax expense, due primarily from prior year refunds received during the three months ended June 30, 2019 and lower 2019 ad valorem tax rates, and (2) a $2.8 million decrease in retail parts and service expenses, which have a corresponding decrease in parts and service revenue, offset by (3) a $5.0 million increase in direct expenses, such as parts, fluids and freight expenses, and (4) a $2.0 million increase in direct labor expenses. The increase in direct parts, fluids, and labor is primarily driven by the increase in average revenue generating horsepower during the current period.

Gross operating margin. The $8.1 million increase in gross operating margin was primarily due to an increase in revenues and a decrease in cost of operations, exclusive of depreciation and amortization, during the three months ended June 30, 2019 due to the increase in average revenue generating horsepower.

Selling, general and administrative expense. The $11.0 million decrease in selling, general and administrative expense for the three months ended June 30, 2019 was primarily attributable to (1) a $1.8 million decrease in payroll and benefits expenses, (2) a $2.4 million decrease in transaction expenses, (3) a $1.3 million decrease in severance expenses, and (4) a $5.9 million decrease in unit-based compensation expense, offset by (5) a $0.6 million increase in professional fees expenses. The decrease in payroll and benefits expenses are primarily due to a decrease in our selling, general and administrative employee headcount in the three months ended June 30, 2019 compared to June 30, 2018. Transaction expenses and severance expenses were lower during the three months ended June 30, 2019 primarily due to the Transactions completed during the three months ended June 30, 2018. Unit-based compensation expense was lower for the three months ended June 30, 2019 primarily due to the accelerated vesting of certain outstanding phantom units as a result of the change in control associated with the Transactions during the three months ended June 30, 2018, partially offset by an increase in the number of outstanding unvested phantom units as of June 30, 2019 compared to June 30, 2018.

Depreciation and amortization expense. The $3.9 million increase in depreciation and amortization expense was primarily related to an increase in the gross property and equipment balances during the three months ended June 30, 2019 compared to the gross property and equipment balances during the three months ended June 30, 2018, which increase was driven primarily by compression unit purchases to meet demand for our compression services.

Interest expense, net. The $7.0 million increase in interest expense, net was primarily attributable to (1) interest expense incurred on $750.0 million of 6.875% senior notes issued in March 2019, which were used to reduce borrowings under the Credit Agreement, (2) higher overall debt balances for the three months ended June 30, 2019 compared to June 30, 2018, and (3) higher interest rates on borrowings under the Credit Agreement. The interest rate applicable to borrowings under the Credit Agreement was 5.10% and 4.56% at June 30, 2019 and June 30, 2018, respectively, and the weighted-average interest rate was 5.05% and 4.54% for the three months ended June 30, 2019 and June 30, 2018, respectively. Average outstanding borrowings under the Credit Agreement were $355.4 million for the three months ended June 30, 2019 compared to $938.8 million for the three months ended June 30, 2018.

Six months ended June 30, 2019 compared to the six months ended June 30, 2018

The following table summarizes our results of operations for the periods presented (dollars in thousands):

	Six Months Ended June 30,		Percent
	2019	2018	Change
Revenues:			
Contract operations	$ 326,913	$ 225,068	45.3 %
Parts and service	7,084	9,824	(27.9)%
Related party	10,424	8,536	22.1 %
Total revenues	344,421	243,428	41.5 %
Costs and expenses:			
Cost of operations, exclusive of depreciation and amortization	113,270	94,868	19.4 %
Gross operating margin	231,151	148,560	55.6 %
Other operating and administrative costs and expenses:			
Selling, general and administrative	32,205	35,138	(8.3)%
Depreciation and amortization	115,707	97,540	18.6 %
Loss on disposition of assets	1,586	11,078	*
Impairment of compression equipment	3,234	—	*
Total other operating and administrative costs and expenses	152,732	143,756	6.2 %
Operating income	78,419	4,804	1,532.4 %
Other income (expense):			
Interest expense, net	(61,536)	(25,682)	139.6 %
Other	32	(1)	*
Total other expense	(61,504)	(25,683)	139.5 %
Net income (loss) before income tax expense (benefit)	16,915	(20,879)	181.0 %
Income tax expense (benefit)	379	(706)	153.7 %
Net income (loss)	$ 16,536	$ (20,173)	182.0 %

**Not meaningful*

Contract operations revenue. The $101.8 million increase in contract operations revenue during the six months ended June 30, 2019 compared to the six months ended June 30, 2018 was primarily attributable to the first three months of 2018 including only the results of the USA Compression Predecessor prior to the Transactions Date. Also, we have experienced a year-to-year increase in demand for our compression services driven by increased operating activity in the oil and gas industry. Average revenue generating horsepower increased 43.9% during the six months ended June 30, 2019 over the six months ended June 30, 2018, primarily from the addition of the Partnership's historical assets after the Transactions Date, and average revenue per revenue generating horsepower per month increased 4.1% from $15.88 for the six months ended June 30, 2018 to $16.53 for the six months ended June 30, 2019.

Parts and service revenue. The $2.7 million decrease in parts and service revenue was primarily attributable to a decrease in maintenance work performed on units at our customers' locations that are outside the scope of our core maintenance activities and offered as a courtesy to our customers, and freight and crane charges that are directly reimbursable by customers. Demand for retail parts and services fluctuates from period to period based on the varying needs of our customers.

Related party revenue. Related party revenue was earned through related party transactions in the ordinary course of business with various affiliated entities of ETO. The $1.9 million increase in related party revenue was primarily attributable to additional compression service demand from such affiliates.

Cost of operations, exclusive of depreciation and amortization. The $18.4 million increase in cost of operations was driven by (1) a $17.9 million increase in direct expenses, such as parts, fluids and freight expenses, and (2) a $7.4 million increase in direct labor expenses, offset by (3) a $2.4 million decrease in ad valorem tax expense due primarily to prior year refunds received during the six months ended June 30, 2019 and lower 2019 ad valorem tax rates, and (4) a $2.5 million decrease in retail parts and service expenses, which have a corresponding decrease in parts and service revenue.

The increase in direct parts, fluids and labor is primarily driven by the increase in average revenue generating horsepower during the current period as a result of the addition of the Partnership's historical assets after the Transactions Date.

Gross operating margin. The $82.6 million increase in gross operating margin was primarily due to an increase in revenues, partially offset by an increase in cost of operations, exclusive of depreciation and amortization, during the six months ended June 30, 2019 due to the addition of the Partnership's historical assets after the Transactions Date.

Selling, general and administrative expense. The $2.9 million decrease in selling, general and administrative expense for the six months ended June 30, 2019 was primarily attributable to (1) a $3.2 million decrease in unit-based compensation expense, (2) a $2.3 million decrease in transactions expenses, (3) a $1.1 million decrease in severance expenses and (4) a $1.7 million decrease in other miscellaneous expenses, offset by (5) a $3.3 million increase in payroll and benefits expenses, and (6) a $2.5 million increase in professional fees expenses. Unit-based compensation expense was lower for the six months ended June 30, 2019 primarily due to the accelerated vesting of certain outstanding phantom units as a result of the change in control associated with the Transactions during the six months ended June 30, 2018, partially offset by an increase in the number of outstanding unvested phantom units as of June 30, 2019 compared to June 30, 2018. Transaction expenses and severance expenses were lower during the six months ended June 30, 2019 primarily due to the Transactions completed during the six months ended June 30, 2018. Other miscellaneous expenses decreased primarily due to the expense allocation to the USA Compression Predecessor ending after the Transactions Date. Payroll and benefits expenses and professional fees increased due to the addition of the Partnership's historical assets after the Transactions Date.

Depreciation and amortization expense. The $18.2 million increase in depreciation and amortization expense was primarily the result of the addition of the Partnership's historical assets on the Transactions Date. The remaining change in depreciation and amortization expense was primarily related to an increase in the gross property and equipment balances during the six months ended June 30, 2019 compared to the gross property and equipment balances during the six months ended June 30, 2018, which increase was driven primarily by compression unit purchases to meet demand for our compression services.

Interest expense, net. The $35.9 million increase in interest expense, net was primarily attributable to (1) higher overall debt balances for the six months ended June 30, 2019 compared to June 30, 2018, as the USA Compression Predecessor had no borrowings prior to the Transactions Date, (2) interest expense incurred on $750.0 million of 6.875% senior notes issued in March 2019, which were used to reduce borrowings under the Credit Agreement, and (3) higher interest rates on borrowings under the Credit Agreement. The interest rate applicable to borrowings under the Credit Agreement was 5.10% and 4.56% at June 30, 2019 and June 30, 2018, respectively, and the weighted-average interest rate was 5.06% for the six months ended June 30, 2019 and 4.54% for the period from the Transactions Date to June 30, 2018. Average outstanding borrowings under the Credit Agreement were $610.1 million for the six months ended June 30, 2019 compared to $938.8 million for the period from the Transactions Date to June 30, 2018.

Other Financial Data

The following table summarizes other financial data for the periods presented (dollars in thousands):

Other Financial Data: (1)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Percent Change	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Percent Change
Gross operating margin	$ 117,430	$ 109,365	7.4 %	$ 231,151	$ 148,560	55.6 %
Gross operating margin percentage (2)	67.6 %	65.5 %	3.2 %	67.1 %	61.0 %	10.0 %
Adjusted EBITDA	$ 104,708	$ 95,438	9.7 %	$ 206,085	$ 127,087	62.2 %
Adjusted EBITDA percentage (2)	60.3 %	57.2 %	5.4 %	59.8 %	52.2 %	14.6 %
DCF	$ 54,062	$ 51,422	5.1 %	$ 108,914	$ 73,858	47.5 %
DCF Coverage Ratio	1.14 x	1.09 x	4.6 %	1.15 x	1.56 x	(26.3)%
Cash Coverage Ratio	1.15 x	1.09 x	5.5 %	1.16 x	1.57 x	(26.1)%

(1) Gross operating margin, Adjusted EBITDA, Distributable Cash Flow ("DCF"), DCF Coverage Ratio and Cash Coverage Ratio are all non-GAAP financial measures. Definitions of each measure, as well as reconciliations of each measure to its most directly comparable financial measure(s) calculated and presented in accordance with GAAP, can be found below under the caption "—Non-GAAP Financial Measures."

(2) Gross operating margin percentage and Adjusted EBITDA percentage are calculated as a percentage of revenue.

Adjusted EBITDA. Adjusted EBITDA during the three months ended June 30, 2019 increased $9.3 million, or 9.7%, over the three months ended June 30, 2018, primarily due to an $8.1 million increase in gross operating margin and a $1.4 million decrease in selling, general and administrative expenses, excluding transaction expenses and unit-based compensation expense during the three months ended June 30, 2019.

Adjusted EBITDA during the six months ended June 30, 2019 increased $79.0 million, or 62.2% over the six months ended June 30, 2018, driven by the addition of the Partnership's historical assets after the Transactions Date, which was the primary cause of an $82.6 million increase in gross operating margin, and offset by a $3.7 million increase in selling, general and administrative expenses, excluding transaction expenses, unit-based compensation expense and other non-recurring charges, during the six months ended June 30, 2019.

DCF. The $2.6 million, or 5.1%, increase in DCF during the three months ended June 30, 2019 over the three months ended June 30, 2018 was primarily attributable to an $8.1 million increase in gross operating margin and a $1.4 million decrease in selling, general and administrative expenses, excluding transaction expenses and unit-based compensation expense, offset by a $7.1 million increase in cash interest expense, net.

The $35.1 million, or 47.5%, increase in DCF during the six months ended June 30, 2019 over the six months ended June 30, 2018 was driven by (1) the addition of the Partnership's historical assets after the Transactions Date, which was the primary cause of an $82.6 million increase in gross operating margin and (2) a $2.3 million decrease in maintenance capital expenditures offset by (3) a $34.2 million increase in cash interest expense, net, (4) a $12.3 million increase in distributions on Preferred Units and (5) a $3.7 million increase in selling, general and administrative expenses, excluding transaction expenses, unit-based compensation expense and other non-recurring charges, during the six months ended June 30, 2019.

Coverage Ratios. The decrease in DCF Coverage Ratio and Cash Coverage Ratio for the six months ended June 30, 2019 compared to June 30, 2018 was attributable to the fact that distributions for the six months ended June 30, 2018 reflect only one quarter of distributions, as the USA Compression Predecessor did not pay distributions prior to the Transactions Date.

Liquidity and Capital Resources

Overview

We operate in a capital-intensive industry, and our primary liquidity needs are to finance the purchase of additional compression units and make other capital expenditures, service our debt, fund working capital, and pay distributions. Our principal sources of liquidity include cash generated by operating activities, borrowings under the Credit Agreement and issuances of debt and equity securities, including under the DRIP.

We believe cash generated by operating activities and, where necessary, borrowings under the Credit Agreement will be sufficient to service our debt, fund working capital, fund our estimated expansion capital expenditures, fund our maintenance capital expenditures and pay distributions through the remainder of 2019. Because we distribute all of our available cash, which excludes prudent operating reserves, we expect to fund any future expansion capital expenditures or acquisitions primarily with capital from external financing sources, such as borrowings under the Credit Agreement and issuances of debt and equity securities, including under the DRIP.

Cash Flows

The following table summarizes our sources and uses of cash for the six months ended June 30, 2019 and 2018 (in thousands):

	Six Months Ended June 30,	
	2019	2018
Net cash provided by operating activities	$ 147,586	$ 94,370
Net cash used in investing activities	$ (75,949)	$ (664,970)
Net cash provided by (used in) financing activities	$ (71,734)	$ 569,114

Net cash provided by operating activities. The $53.2 million increase in net cash provided by operating activities for the six months ended June 30, 2019 was due primarily to a $48.1 million increase in net income, as adjusted for non-cash items, as a result of the addition of the Partnership's historical assets after the Transactions Date and a year-to-year increase in demand for our compression services.

Net cash used in investing activities. Net cash used in investing activities decreased $589.0 million for the six months ended June 30, 2019 compared to June 30, 2018. This decrease was due to (1) $1.2 billion of cash paid, offset by $710.5 million of cash assumed, each as part of the CDM Acquisition, (2) a $61.5 million decrease in capital expenditures, for purchases of new compression units, related equipment and reconfiguration costs, (3) a $2.4 million increase in proceeds from disposition of property and equipment and (4) $3.0 million of insurance proceeds received during the six months ended June 30, 2019 for compression units previously damaged.

Net cash provided by (used in) financing activities. Net cash used in financing activities was $71.7 million for the six months ended June 30, 2019 compared to net cash provided by financing activities of $569.1 million for the six months ended June 30, 2018. This change was primarily due to (1) $479.1 million of net proceeds received during the six months ended June 30, 2018 for the issuance of Preferred Units and Warrants used to partially fund the CDM Acquisition, (2) $24.4 million of cash distributions paid on Preferred Units during the six months ended June 30, 2019, (3) an increase of $48.1 million in cash distributions paid on common units, as the USA Compression Predecessor did not pay distributions prior to the Transactions Date, (4) a decrease in net borrowings of $67.1 million, as additional borrowings were made under the Credit Agreement to pay fees and expenses related to the CDM Acquisition, and (5) during the six months ended June 30, 2018, the USA Compression Predecessor received $28.5 million in intercompany distributions from its former parent company.

During the six months ended June 30, 2019, we received $750.0 million (before fees and expenses) from the issuance of the Senior Notes 2027. Additionally, and primarily in connection with the issuance of the Senior Notes 2027, we paid fees and expenses of $13.5 million. We used the net proceeds to reduce our borrowings under the Credit Agreement.

Capital Expenditures

The compression services business is capital intensive, requiring significant investment to maintain, expand and upgrade existing operations. Our capital requirements have consisted primarily of, and we anticipate that our capital requirements will continue to consist primarily of, the following:

- maintenance capital expenditures, which are capital expenditures made to maintain the operating capacity of our assets and extend their useful lives, to replace partially or fully depreciated assets, or other capital expenditures that are incurred in maintaining our existing business and related operating income; and

- expansion capital expenditures, which are capital expenditures made to expand the operating capacity or operating income capacity of assets, including by acquisition of compression units or through modification of existing compression units to increase their capacity, or to replace certain partially or fully depreciated assets that were not currently generating operating income.

We classify capital expenditures as maintenance or expansion on an individual asset basis. Over the long term, we expect that our maintenance capital expenditure requirements will continue to increase as the overall size and age of our fleet increases. Our aggregate maintenance capital expenditures for the six months ended June 30, 2019 and 2018 were $14.8 million and $17.1 million, respectively. We currently plan to spend approximately $25 million in maintenance capital expenditures for the year 2019, including parts consumed from inventory.

Without giving effect to any equipment we may acquire pursuant to any future acquisitions, we currently have budgeted between $140 million and $150 million in expansion capital expenditures for the year 2019. Our expansion capital expenditures for the six months ended June 30, 2019 and 2018 were $84.0 million and $94.4 million, respectively. As of June 30, 2019, we had binding commitments to purchase $82.0 million of additional compression units and serialized parts, which are expected to be delivered throughout 2019 and 2020.

Revolving Credit Facility

As of June 30, 2019, we were in compliance with all of our covenants under the Credit Agreement. As of June 30, 2019, we had outstanding borrowings under the Credit Agreement of $363.4 million, $1.2 billion of borrowing base availability and, subject to compliance with the applicable financial covenants, available borrowing capacity of $438.9 million.

As of August 2, 2019, we had outstanding borrowings under the Credit Agreement of $330.0 million.

For a more detailed description of the Credit Agreement, see Note 8 to our unaudited condensed consolidated financial statements under Part I, Item 1 of this report and Note 10 to the consolidated financial statements included in our 2018 Annual Report.

Senior Notes 2026

On March 23, 2018, the Partnership and Finance Corp co-issued $725.0 million aggregate principal amount of senior notes due on April 1, 2026 (the “Senior Notes 2026”). The Senior Notes 2026 accrue interest at the rate of 6.875% per year. Interest on the Senior Notes 2026 is payable semi-annually in arrears on each of April 1 and October 1. The Senior Notes 2026 were used to fund a portion of the CDM Acquisition completed on the Transactions Date.

For a more detailed description of the Senior Notes 2026, see Note 8 to our unaudited condensed consolidated financial statements under Part I, Item 1 of this report and Note 10 to the consolidated financial statements included in our 2018 Annual Report.

Senior Notes 2027

On March 7, 2019, the Partnership and Finance Corp co-issued $750.0 million aggregate principal amount of senior notes due on September 1, 2027 (the “Senior Notes 2027”). The Senior Notes 2027 accrue interest from March 7, 2019

at the rate of 6.875% per year. Interest on the Senior Notes 2027 is payable semi-annually in arrears on each of March 1 and September 1, commencing on September 1, 2019. Net proceeds from the Senior Notes 2027 were used to reduce our outstanding borrowings under the Credit Agreement.

For a more detailed description of the Senior Notes 2027, see Note 8 to our unaudited condensed consolidated financial statements under Part I, Item 1 of this report.

Class B Unit Conversion

On July 30, 2019, 6,397,965 Class B Units automatically converted into common units on a one-for-one basis, resulting in the issuance of 6,397,965 common units to ETO. Following the conversion, there are no longer any Class B Units in the Partnership outstanding.

Distribution Reinvestment Plan

During the six months ended June 30, 2019, distributions of $0.5 million were reinvested under the DRIP resulting in the issuance of 30,241 common units. Such distributions are treated as non-cash transactions in the accompanying Unaudited Condensed Consolidated Statements of Cash Flows included under Part I, Item 1 of this report.

Non-GAAP Financial Measures

Gross Operating Margin

Gross operating margin is a non-GAAP financial measure. We define gross operating margin as revenue less cost of operations, exclusive of depreciation and amortization expense. We believe that gross operating margin is useful as a supplemental measure of our operating profitability. Gross operating margin is impacted primarily by the pricing trends for service operations and cost of operations, including labor rates for service technicians, volume and per unit costs for lubricant oils, quantity and pricing of routine preventative maintenance on compression units and property tax rates on compression units. Gross operating margin should not be considered an alternative to, or more meaningful than, operating income or any other measure of financial performance presented in accordance with GAAP. Moreover, gross operating margin as presented may not be comparable to similarly titled measures of other companies. Because we capitalize assets, depreciation and amortization of equipment is a necessary element of our costs. To compensate for the limitations of gross operating margin as a measure of our performance, we believe that it is important to consider operating income determined under GAAP, as well as gross operating margin, to evaluate our operating profitability.

The following table reconciles gross operating margin to operating income, its most directly comparable GAAP financial measure, for each of the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues:				
Contract operations	$ 162,937	$ 155,261	$ 326,913	$ 225,068
Parts and service	4,400	7,074	7,084	9,824
Related party	6,338	4,563	10,424	8,536
Total revenues	173,675	166,898	344,421	243,428
Cost of operations, exclusive of depreciation and amortization	56,245	57,533	113,270	94,868
Gross operating margin	117,430	109,365	231,151	148,560
Other operating and administrative costs and expenses:				
Selling, general and administrative	16,210	27,177	32,205	35,138
Depreciation and amortization	56,783	52,868	115,707	97,540
Loss on disposition of assets	1,546	731	1,586	11,078
Impairment of compression equipment	—	—	3,234	—
Total other operating and administrative costs and expenses	74,539	80,776	152,732	143,756
Operating income	$ 42,891	$ 28,589	$ 78,419	$ 4,804

Adjusted EBITDA

We define EBITDA as net income (loss) before net interest expense, depreciation and amortization expense, and income tax expense (benefit). We define Adjusted EBITDA as EBITDA plus impairment of compression equipment, impairment of goodwill, interest income on capital lease, unit-based compensation expense, severance charges, certain transaction fees, loss (gain) on disposition of assets and other. We view Adjusted EBITDA as one of management's primary tools for evaluating our results of operations, and we track this item on a monthly basis both as an absolute amount and as a percentage of revenue compared to the prior month, year-to-date, prior year and budget. Adjusted EBITDA is used as a supplemental financial measure by our management and external users of our financial statements, such as investors and commercial banks, to assess:

- the financial performance of our assets without regard to the impact of financing methods, capital structure or historical cost basis of our assets;
- the viability of capital expenditure projects and the overall rates of return on alternative investment opportunities;
- the ability of our assets to generate cash sufficient to make debt payments and to pay distributions; and
- our operating performance as compared to those of other companies in our industry without regard to the impact of financing methods and capital structure.

We believe that Adjusted EBITDA provides useful information to investors because, when viewed with our GAAP results and the accompanying reconciliations, it may provide a more complete understanding of our performance than GAAP results alone. We also believe that external users of our financial statements benefit from having access to the same financial measures that management uses in evaluating the results of our business.

Adjusted EBITDA should not be considered an alternative to, or more meaningful than, net income (loss), operating income (loss), cash flows from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP as measures of operating performance and liquidity. Moreover, our Adjusted EBITDA as presented may not be comparable to similarly titled measures of other companies.

Because we use capital assets, depreciation, impairment of compression equipment, loss (gain) on disposition of assets and the interest cost of acquiring compression equipment are also necessary elements of our costs. Unit-based compensation expense related to equity awards to employees is also a necessary component of our business. Therefore, measures that exclude these elements have material limitations. To compensate for these limitations, we believe that it is important to consider both net income (loss) and net cash provided by operating activities determined under GAAP, as well as Adjusted EBITDA, to evaluate our financial performance and our liquidity. Our Adjusted EBITDA excludes some, but not all, items that affect net income (loss) and net cash provided by operating activities, and these measures may vary among companies. Management compensates for the limitations of Adjusted EBITDA as an analytical tool by reviewing the comparable GAAP measures, understanding the differences between the measures and incorporating this knowledge into their decision making processes.

The following table reconciles Adjusted EBITDA to net income (loss) and net cash provided by operating activities, its most directly comparable GAAP financial measures, for each of the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income (loss)	$ 9,949	$ 3,197	$ 16,536	$ (20,173)
Interest expense, net	32,679	25,682	61,536	25,682
Depreciation and amortization	56,783	52,868	115,707	97,540
Income tax expense (benefit)	275	(271)	379	(706)
EBITDA	**$ 99,686**	**$ 81,476**	**$ 194,158**	**$ 102,343**
Interest income on capital lease	177	273	371	273
Unit-based compensation expense (1)	2,706	8,564	5,840	8,999
Transaction expenses (2)	465	2,863	551	2,863
Severance charges	128	1,531	345	1,531
Loss on disposition of assets	1,546	731	1,586	11,078
Impairment of compression equipment (3)	—	—	3,234	—
Adjusted EBITDA	**$ 104,708**	**$ 95,438**	**$ 206,085**	**$ 127,087**
Interest expense, net	(32,679)	(25,682)	(61,536)	(25,682)
Non-cash interest expense	1,975	2,039	3,655	2,039
Income tax (expense) benefit	(275)	271	(379)	706
Interest income on capital lease	(177)	(273)	(371)	(273)
Transaction expenses	(465)	(2,863)	(551)	(2,863)
Severance charges	(128)	(1,531)	(345)	(1,531)
Other	486	85	500	(542)
Changes in operating assets and liabilities	26,372	8,019	528	(4,571)
Net cash provided by operating activities	**$ 99,817**	**$ 75,503**	**$ 147,586**	**$ 94,370**

(1) For the three and six months ended June 30, 2019, unit-based compensation expense included $0.6 million and $1.3 million, respectively, of cash payments related to quarterly payments of distribution equivalent rights on outstanding phantom unit awards and $0.3 million and $0.6 million, respectively, related to the cash portion of any settlement of phantom unit awards upon vesting. For the three and six months ended June 30, 2018, unit-based compensation expense included $0.4 million of cash payments related to quarterly payments of distribution equivalent rights on outstanding phantom unit awards in each period and $3.7 million related to the cash portion of any settlement of phantom unit awards upon vesting. The remainder of the unit-based compensation expense for all periods was related to non-cash adjustments to the unit-based compensation liability.

(2) Represents certain expenses related to potential and completed transactions and other items. We believe it is useful to investors to exclude these fees.

(3) Represents non-cash charges incurred to write down long-lived assets with recorded values that are not expected to be recovered through future cash flows.

Distributable Cash Flow

We define DCF as net income (loss) plus non-cash interest expense, non-cash income tax expense (benefit), depreciation and amortization expense, unit-based compensation expense, impairment of compression equipment, impairment of goodwill, certain transaction fees, severance charges, loss (gain) on disposition of assets, proceeds from insurance recovery and other, less distributions on Preferred Units and maintenance capital expenditures.

We believe DCF is an important measure of operating performance because it allows management, investors and others to compare basic cash flows we generate (after distributions on our Preferred Units but prior to any retained cash reserves established by the General Partner and the effect of the DRIP) to the cash distributions we expect to pay our common unitholders. Using DCF, management can quickly compute the coverage ratio of estimated cash flows to planned cash distributions.

DCF should not be considered an alternative to, or more meaningful than, net income (loss), operating income (loss), cash flows from operating activities or any other measure of financial performance presented in accordance with GAAP as measures of operating performance and liquidity. Moreover, our DCF as presented may not be comparable to similarly titled measures of other companies.

Because we use capital assets, depreciation, impairment of compression equipment, loss (gain) on disposition of assets, the interest cost of acquiring compression equipment and maintenance capital expenditures are necessary elements of our costs. Unit-based compensation expense related to equity awards to employees is also a necessary component of our business. Therefore, measures that exclude these elements have material limitations. To compensate for these limitations, we believe that it is important to consider both net income (loss) and net cash provided by operating activities determined under GAAP, as well as DCF, to evaluate our financial performance and our liquidity. Our DCF excludes some, but not all, items that affect net income (loss) and net cash provided by operating activities, and these measures may vary among companies. Management compensates for the limitations of DCF as an analytical tool by reviewing the comparable GAAP measures, understanding the differences between the measures and incorporating this knowledge into their decision making processes.

The following table reconciles DCF to net income (loss) and net cash provided by operating activities, its most directly comparable GAAP financial measures, for each of the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Net income (loss)	$ 9,949	$ 3,197	$ 16,536	$ (20,173)
Non-cash interest expense	1,975	2,039	3,655	2,039
Depreciation and amortization	56,783	52,868	115,707	97,540
Non-cash income tax expense (benefit)	187	(390)	201	(825)
Unit-based compensation expense (1)	2,706	8,564	5,840	8,999
Transaction expenses (2)	465	2,863	551	2,863
Severance charges	128	1,531	345	1,531
Loss on disposition of assets	1,546	731	1,586	11,078
Impairment of compression equipment (3)	—	—	3,234	—
Distributions on Preferred Units	(12,188)	(12,054)	(24,375)	(12,054)
Proceeds from insurance recovery	383	—	427	—
Maintenance capital expenditures (4)	(7,872)	(7,927)	(14,793)	(17,140)
DCF	**$ 54,062**	**$ 51,422**	**$ 108,914**	**$ 73,858**
Maintenance capital expenditures	7,872	7,927	14,793	17,140
Transaction expenses	(465)	(2,863)	(551)	(2,863)
Severance charges	(128)	(1,531)	(345)	(1,531)
Distributions on Preferred Units	12,188	12,054	24,375	12,054
Other	(84)	475	(128)	283
Changes in operating assets and liabilities	26,372	8,019	528	(4,571)
Net cash provided by operating activities	**$ 99,817**	**$ 75,503**	**$ 147,586**	**$ 94,370**

(1) For the three and six months ended June 30, 2019, unit-based compensation expense included $0.6 million and $1.3 million, respectively, of cash payments related to quarterly payments of distribution equivalent rights on outstanding phantom unit awards and $0.3 million and $0.6 million, respectively, related to the cash portion of any settlement of phantom unit awards upon vesting. For the three and six months ended June 30, 2018, unit-based compensation expense included $0.4 million of cash payments related to quarterly payments of distribution equivalent rights on outstanding phantom unit awards in each period and $3.7 million related to the cash portion of any settlement of phantom unit awards upon vesting. The remainder of the unit-based compensation expense for all periods was related to non-cash adjustments to the unit-based compensation liability.

(2) Represents certain expenses related to potential and completed transactions and other items. We believe it is useful to investors to exclude these fees.

(3) Represents non-cash charges incurred to write down long-lived assets with recorded values that are not expected to be recovered through future cash flows.

(4) Reflects actual maintenance capital expenditures for the period presented. Maintenance capital expenditures are capital expenditures made to maintain the operating capacity of our assets and extend their useful lives, replace partially or fully depreciated assets, or other capital expenditures that are incurred in maintaining our existing business and related cash flow.

Coverage Ratios

DCF Coverage Ratio is defined as DCF divided by distributions declared to common unitholders in respect of such period. Cash Coverage Ratio is defined as DCF divided by cash distributions expected to be paid to common unitholders in respect of such period, after taking into account the non-cash impact of the DRIP. We believe DCF Coverage Ratio and Cash Coverage Ratio are important measures of operating performance because they allow management, investors and others to gauge our ability to pay cash distributions to common unitholders using the cash flows that we generate. Our DCF Coverage Ratio and Cash Coverage Ratio as presented may not be comparable to similarly titled measures of other companies.

The following table summarizes certain coverage ratios for the periods presented (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018 (4)
DCF	$ 54,062	$ 51,422	$ 108,914	$ 73,858
Distributions for DCF Coverage Ratio (1)	$ 47,356	$ 47,225	$ 94,689	$ 47,225
Distributions reinvested in the DRIP (2)	$ 236	$ 218	$ 462	$ 218
Distributions for Cash Coverage Ratio (3)	$ 47,120	$ 47,007	$ 94,227	$ 47,007
DCF Coverage Ratio	1.14	1.09	1.15	1.56
Cash Coverage Ratio	1.15	1.09	1.16	1.57

(1) Represents distributions to the holders of our common units as of the record date.

(2) Represents distributions to holders enrolled in the DRIP as of the record date.

(3) Represents cash distributions declared for common units not participating in the DRIP.

(4) Distributions for the six months ended June 30, 2018 reflect only one quarter of distributions as the USA Compression Predecessor did not pay distributions prior to the Transactions Date.

Off-Balance Sheet Arrangements

We have no off-balance sheet financing activities.

Recent Accounting Pronouncements

For discussion on specific recent accounting pronouncements affecting us, see Note 14 to our unaudited condensed consolidated financial statements under Part I, Item 1 of this report.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Commodity Price Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. We do not take title to any natural gas or crude oil in connection with our services and, accordingly, have no direct exposure to fluctuating commodity prices. However, the demand for our compression services depends upon the continued demand for, and production of, natural gas and crude oil. Sustained changes in natural gas or crude oil prices over the long term could result in a decline in the production of natural gas or crude oil, which could result in reduced demand for our compression services. We do not intend to hedge our indirect exposure to fluctuating commodity prices. A 1% decrease in average revenue generating horsepower of our active fleet during the six months ended June 30, 2019 would have resulted in a decrease of approximately $6.5 million and $4.4 million in our revenue and gross operating margin, respectively. Gross operating margin is a non-GAAP financial measure. For a reconciliation of gross operating margin to net income (loss), its most directly comparable financial measure, calculated and presented in accordance with GAAP, please read "Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" of this report.

Interest Rate Risk

We are exposed to market risk due to variable interest rates under our financing arrangements.

As of June 30, 2019 we had $363.4 million of variable-rate outstanding indebtedness at a weighted-average interest rate of 5.10%. A 1% increase or decrease in the effective interest rate on our variable-rate outstanding debt at June 30, 2019 would result in an annual increase or decrease in our interest expense of approximately $3.6 million.

For further information regarding our exposure to interest rate fluctuations on our debt obligations, see Note 8 to our unaudited condensed consolidated financial statements under Part I, Item 1 of this report. Although we do not currently hedge our variable rate debt, we may, in the future, hedge all or a portion of such debt.

Credit Risk

Our credit exposure generally relates to receivables for services provided. If any significant customer of ours should have credit or financial problems resulting in a delay or failure to pay the amount it owes us, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

ITEM 4. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures, and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of June 30, 2019 at the reasonable assurance level.

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

From time to time, we may be involved in various legal or governmental proceedings and litigation arising in the ordinary course of business. In management's opinion, the resolution of such matters is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A. Risk Factors

Security holders and potential investors in our securities should carefully consider the risk factors set forth in Part I, "Item 1A. Risk Factors" of our 2018 Annual Report. We have identified these risk factors as important factors that could cause our actual results to differ materially from those contained in any written or oral forward-looking statements made by us or on our behalf.

ITEM 6. Exhibits

The following documents are filed, furnished or incorporated by reference as part of this report:

Exhibit No.	Description
3.1	Certificate of Limited Partnership of USA Compression Partners, LP (incorporated by reference to Exhibit 3.1 to Amendment No. 3 of the Partnership's registration statement on Form S-1 (Registration No. 333-174803) filed on December 21, 2011)
3.2	Second Amended and Restated Agreement of Limited Partnership of USA Compression Partners, LP (incorporated by reference to Exhibit 3.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on April 6, 2018)
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1#	Certification of 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 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 herewith. Not considered to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.

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.

August 6, 2019

USA Compression Partners, LP

By: USA Compression GP, LLC
its General Partner

By: /s/ Matthew C. Liuzzi
Matthew C. Liuzzi
Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

By: /s/ G. Tracy Owens
G. Tracy Owens
Vice President, Finance and Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Eric D. Long, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of USA Compression Partners, LP (the "registrant");

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(s) 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(s) 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.

August 6, 2019

/s/ Eric D. Long
Name: Eric D. Long
Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Matthew C. Liuzzi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of USA Compression Partners, LP (the "registrant");

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(s) 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(s) 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.

August 6, 2019

/s/ Matthew C. Liuzzi
Name: Matthew C. Liuzzi
Title: Vice President, Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §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 USA Compression Partners, LP (the "Partnership") for the quarter ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Eric D. Long, as President and Chief Executive Officer of USA Compression GP, LLC, the general partner of the Partnership, 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 Partnership.

/s/ Eric D. Long
Eric D. Long
President and Chief Executive Officer

August 6, 2019

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

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. §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 USA Compression Partners, LP (the "Partnership") for the quarter ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Matthew C. Liuzzi, as Vice President, Chief Financial Officer and Treasurer of USA Compression GP, LLC, the general partner of the Partnership, 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 Partnership.

/s/ Matthew C. Liuzzi
Matthew C. Liuzzi
Vice President, Chief Financial Officer and Treasurer

August 6, 2019

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