

UNIVERSAL COMPRESSION HOLDINGS INC  
Form 10-K  
June 28, 2002

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

**FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended March 31, 2002

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file nos.: 001-15843  
333-48279

**Universal Compression Holdings, Inc.**  
**Universal Compression, Inc.**

(Exact name of Registrants as Specified in Their Charters)

**Delaware**  
**Texas**  
(States or Other Jurisdictions of  
Incorporation or Organization)

**13-3989167**  
**74-1282680**  
(I.R.S. Employer  
Identification Nos.)

**4440 Brittmoore Road**  
**Houston, Texas**  
(Address of Principal Executive Offices)

**77041-8004**  
(Zip Code)

**(713) 335-7000**

(Registrants' telephone number, including area code)

Securities of Universal Compression Holdings, Inc. Registered Pursuant to Section 12(b) of the Act:

**Title of Each Class**

**Name of Each Exchange on Which Registered**

Common Stock, \$.01 par value

New York Stock Exchange, Inc

Securities of Universal Compression Holdings, Inc. Registered Pursuant to Section 12(g) of the Act:

**Title of Each Class**

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## Title of Each Class

## Name of Each Exchange on Which Registered

None

Securities of Universal Compression, Inc. Registered Pursuant to Section 12(b) of the Act:

## Title of Each Class

## Name of Each Exchange on Which Registered

None

N/A

Securities of Universal Compression, Inc. Registered Pursuant to Section 12(g) of the Act:

## Title of Each Class

None

UNIVERSAL COMPRESSION, INC. MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM 10-K WITH THE REDUCED DISCLOSURE FORMAT.

Indicate by check mark whether each of the registrants (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 registrants were 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the Common Stock of Universal Compression Holdings, Inc. held by non-affiliates as of June 14, 2002: \$334,291,144. For purposes of the above statements only, all directors, executive officers and 10% stockholders are assumed to be affiliates. This calculation does not reflect a determination that such persons are affiliates for any other purpose.

The number of shares of the Common Stock of Universal Compression Holdings, Inc. outstanding as of June 14, 2002: 30,634,135 shares. All 4,910 outstanding shares of common stock of Universal Compression, Inc., par value \$10.00 per share, are owned by Universal Compression Holdings, Inc.

### Documents Incorporated by Reference

Portions of Universal Compression Holdings, Inc.'s Proxy Statement for the Annual Meeting of Stockholders to be held on August 15, 2002 are incorporated by reference into Part III, as indicated herein.

**The Index to Exhibits is on page 43.**

## PART I

The terms "our," "Company," "we," and "us" when used in this report refer to Universal Compression Holdings, Inc. and its subsidiaries, including Universal Compression, Inc. ("Universal"), as a combined entity, except where it is made clear that such term means only the parent company, and includes its predecessors.

### DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained in this report are forward-looking statements, including, without limitation, statements regarding future financial position, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of management for future operations. You can identify many of these statements by looking for words such as "believes," "expects," "will," "intends," "projects," "anticipates," "estimates," "continues" or similar words or the negative

thereof.

Such forward-looking statements in this report include, without limitation:

our future financial position;

the sufficiency of available cash flows to fund continuing operations;

the expected amount of capital expenditures;

anticipated synergies, cost savings, future revenues, gross margins and EBITDA, as adjusted, in our business and primary business segments, including from our acquisitions;

the future value of our equipment;

our growth strategy and projected costs; and

plans and objectives of our management for our future operations, including resolution of the political and economic situation in Argentina.

Such forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. The risks related to our business described under "Risk Factors" and elsewhere in this report could cause our actual results to differ from those described in, or otherwise projected or implied by, the forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will prove to be correct. Important factors that could cause our actual results to differ materially from the expectations reflected in these forward-looking statements include, among other things:

conditions in the oil and gas industry, including a sustained decrease in the level of demand for natural gas and the impact of the price of natural gas;

competition among the various providers of contract compression services;

changes in safety and environmental regulations pertaining to the production and transportation of natural gas;

changes in political or economic conditions in operating markets, including uncertainties relating to the current situation in Argentina;

acts of war or terrorism or governmental or military responses thereto;

introduction of competing technologies by other companies;

our ability to retain and grow our customer base;

our inability to successfully integrate acquired businesses;

employment workforce factors, including loss of key employees; and

liability claims related to the use of our products and services.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section as well as "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The forward-looking statements included herein are only as of the date of this report and we undertake no obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise.

### **ITEM 1. Business**

*This report refers to the term "contract compression", which during the second quarter of fiscal 2002 we changed the name of our "rental and maintenance" business to "contract compression". In addition, during the fourth quarter of fiscal 2002, we changed the name of our "parts sales and service" business to "aftermarket services".*

We are the second largest natural gas compression services company in the world in terms of compressor fleet horsepower, with a fleet as of March 31, 2002 of approximately 7,400 compressor units comprising approximately 2.2 million horsepower. We provide a full range of contract compression services, sales, operations, maintenance and fabrication services and products to the natural gas industry, both domestically and internationally. These services and products are essential to the natural gas industry as gas must be compressed to be delivered from the wellhead to end-users.

We operate in four primary business segments: domestic contract compression, international contract compression, fabrication and aftermarket services. Our core business, contract compression, involves the leasing of compression equipment to customers. In most cases, maintenance is provided under the terms of the lease. By outsourcing their compression needs, we believe our contract compression customers generally are able to increase their revenues by producing a higher volume of natural gas through decreased compressor downtime. In addition, outsourcing allows our customers to reduce their operating and maintenance costs and capital investments and more efficiently meet their changing compression needs.

In addition to contract compression, we provide a broad range of compression services and products to customers who own their compression equipment or lease their equipment from our competitors. Our equipment fabrication business involves the design, engineering and assembly of natural gas and air compressors for sale to third parties in addition to those that we use in our contract compression fleet. Our ability to fabricate compressors ranging in size from under 100 horsepower to over 5,000 horsepower enables us to provide compressors that are used in all facets of natural gas production, transmission and distribution. Our aftermarket services business sells parts and components, and provides maintenance to customers who own their compression equipment or lease their equipment from our competitors. Our ability to provide a full range of compression services and products broadens our customer relationships and helps us identify potential new customers as well as cross-selling opportunities for existing customers. As the compression needs of our customers increase due to the growing demand for natural gas throughout the world, we believe our geographic scope and broad range of compression services and products will enable us to participate in that growth.

Since our initial public offering in May 2000, we completed seven acquisitions, which have contributed significantly to our growth. Our most significant acquisition was that of Weatherford Global Compression Services, L.P. and certain related entities ("Weatherford Global"), a former subsidiary of Weatherford International, Inc. ("Weatherford"), in February 2001, which added approximately 950,000 horsepower, more than doubling our size at that time. In addition to the increase in horsepower, this

acquisition provided us with numerous strategic and operational benefits, including increased geographic scope, expanded international operations, an established aftermarket services business, cost savings and synergies and increased financial strength. Our acquisition of Gas Compression Services, Inc. ("GCSI") in September 2000 added approximately 138,000 horsepower to our fleet and provided us with an increased customer base, additional market segments and additional fabrication capabilities. ISS Compression ("IEW") was acquired in February 2001 and added approximately 26,000 horsepower to our fleet, as well as important offshore Gulf of Mexico service capabilities.

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Compressor System International, Inc. ("CSII"), which was acquired in April 2001, added approximately 34,000 horsepower in the aggregate to our fleet in Mexico and Argentina. In July 2001, we acquired KCI, Inc. ("KCI"), which added approximately 125,000 horsepower to our domestic fleet as well as significant fabrication expertise and capabilities, a 100,000 square foot fabrication facility in Tulsa, Oklahoma and expertise in the natural gas pipeline compression and related markets. With our acquisition of Louisiana Compressor Maintenance ("LCM") in July 2001, we enhanced our position as a supplier of maintenance, repair, overhaul and upgrade services to natural gas pipeline and related markets. Our acquisition of Technical Compression Service, Inc. ("TCSI") in October 2001 added to our aftermarket services business for the natural gas producing industry as well as the refinery and petrochemical industries. These acquisitions have allowed us to enter new geographic areas with growing demand for our products and services, such as California, Canada and the Gulf of Mexico.

The following table illustrates our growth and utilization during the last fiscal year:

|  | Year Ended March 31,   |            |
|--|------------------------|------------|
|  | 2001                   | 2002       |
|  | (Dollars in thousands) |            |
| Domestic horsepower (end of period)      | 1,631,138              | 1,886,592  |
| International horsepower (end of period) | 254,450                | 345,093    |
|  | 1,885,588              | 2,231,685  |
| Average horsepower utilization rate(a)   | 87.6%                  | 88.8%      |
| Revenues                                 | \$ 232,466             | \$ 679,989 |
| Percentage of revenues from:             |                        |            |
| Contract compression                     | 64.2%                  | 48.2%      |
| Fabrication                              | 26.6%                  | 31.1%      |
| Aftermarket services                     | 9.2%                   | 20.7%      |
| EBITDA, as adjusted(b)                   | \$ 88,610              | \$ 207,584 |

(a) Average horsepower utilization rate for the quarter ended March 31, 2002 was 86.8%

(b) EBITDA, as adjusted, is defined on page 17 of this report.

The contract compression industry has grown rapidly, driven by the steady increase in demand for natural gas, the aging of producing natural gas fields and the attractiveness of outsourcing compression needs. Demand for compression services is principally tied to consumption of natural gas rather than exploration or drilling activities. As a result, we have historically been less affected by oil and gas price volatility than companies operating in other sectors of the energy industry. We operate our standardized compressor fleet in the primary onshore and offshore natural gas producing regions of the United States. In addition, we operate in select international markets, with current operations in Argentina, Canada, Mexico, Colombia, Thailand, Australia, Venezuela, Peru and Brazil. For the year ended March 31, 2002, approximately 23% of our revenues were attributable to international operations.

Our financial performance is generally less affected by the short-term market cycles and oil and gas price volatility than the financial performance of companies operating in other sectors of the energy industry because:

compression is necessary in order for gas to be delivered from the wellhead to end-users;

our operations are tied primarily to natural gas consumption, which is generally less cyclical in nature than exploration activities;

contract compression equipment is often an economically advantageous alternative for natural gas production, gathering and transportation companies;

we have a broad customer base;

we operate in diverse geographic regions; and

we have a standardized compressor fleet.

Adding to this stability is the fact that, while compressors often must be specifically engineered or reconfigured to meet the unique demands of our customers, the fundamental technology of compression equipment has not experienced significant technological change.

### **Competitive Strengths**

We believe that we have the following key competitive strengths:

*Comprehensive range of services and products.* We provide a complete range of compression services and products to meet the changing compression needs of our customers in the diverse geographic markets that we serve, whether they outsource or own their compression equipment. For those customers who outsource, we believe our contract compression services and products generally allow our customers to achieve higher run-times than they would achieve with owned equipment, resulting in increased production and revenues for our customers. Additionally, we continually expand, upgrade and reconfigure our contract compression fleet and provide our operations and maintenance personnel with extensive training. This allows our customers flexibility with regard to their changing compression needs while limiting their capital requirements. We are able to fabricate compression units ranging in size from under 100 horsepower to over 5,000 horsepower that meet the varying needs of our customers. Additionally, we sell parts and provide maintenance and operation services to customers who own their compression equipment or lease their equipment from our competitors. This aftermarket services business also allows us to identify potential contract compression customers who currently own their compression equipment or lease their equipment from our competitors. This broad range of compression services and products allows us to expand our customer base and gives us the opportunity to cross-sell our services and products.

*Ability to serve all gas compression markets.* Historically, we have been principally involved in providing compression services and products related to field compression, which involves compression either at the wellhead or as part of a gathering system. Our two acquisitions in July 2001 enhanced our field compression capability and extended our capabilities into the pipeline compression segment of the market, which generally is characterized by the fabrication of larger horsepower units for sale to third parties and the subsequent sales of aftermarket services for those units. We believe that our ability to access both the field compression and pipeline compression markets gives us a competitive advantage over other compression companies that typically serve only one or the other, and will allow us to continue to grow within the compression services industry.

*Size and geographic scope.* We operate in the primary onshore and offshore natural gas producing regions of the United States and select international markets. As the second largest provider of natural gas compression services, we have sufficient fleet size, personnel, logistical capabilities, geographic scope, fabrication capabilities and range of compression service and product offerings to meet the full service needs of customers worldwide on a timely and cost-effective basis. Our size, geographic scope and customer base provide us with improved fleet utilization opportunities. As a result, we have relatively lower operating costs and higher margins than companies with smaller fleets due to economies of scale. Our fleet consists of approximately 7,400 units comprising approximately 2.2 million horsepower. We have fabrication facilities located in Houston and Schulenberg, Texas, Tulsa, Oklahoma and Calgary, Alberta, Canada.

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*Standardized compressor platforms.* We have standardized our fleet of contract compressors with three primary compressor platforms. Standardization enables us to develop extensive expertise in operating and maintaining our compressors, efficiently resizing and reconfiguring our compressors and reducing our operating costs by minimizing inventory costs. Natural gas compressors are long-lived assets with an expected economic life of 25-40 years. Our preventive maintenance program is designed to maximize the efficient operation of our fleet to maintain their economic useful life.

*Experienced management team.* Our management team has extensive experience in the compression services business. We believe our management team has successfully demonstrated its ability to maintain our quality standards and commitment to customer service even during periods of significant growth. Our management team has a substantial financial interest in our continued success through direct stock ownership, and participation in our incentive stock option and bonus programs which are linked to our performance.

### **Business Strategy**

Our business strategy is to meet the evolving needs of our customers by providing consistent and dependable services and products, and to take advantage of our size and broad geographic scope to expand our customer base. The key elements of our business strategy are described below:

*Provide a complete range of quality compression services and products.* We plan to leverage our field compression capabilities to provide services and products to customers in all segments of the natural gas compression market, including field and pipeline compression, fabrication and aftermarket services.

*Seek opportunities in select international markets.* We plan to capitalize on the international compression market by expanding our existing operations in Latin America, Canada and Asia Pacific and offering our services in other key markets. We believe that our experience in international markets and our reputation for the fabrication of high quality, specifically engineered compressors, provides us with a solid foundation from which to further expand our business internationally.

*Expand and leverage our fabrication and aftermarket services business.* As a result of our acquisitions, we have increased our fabrication and aftermarket services businesses, particularly in the United States and Canada, and we intend to expand these segments of our business. These segments also provide us with an opportunity to cross-sell our contract compression business.

*Continue to expand beyond field compression.* In addition to our field compression services, we have expanded our large horsepower compression capabilities in gathering, pipeline, processing and offshore markets. We believe the pipeline compression market has significant growth potential for our services as well as potential candidates for contract compression.

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*Pursue acquisitions within the compression industry.* We intend to pursue acquisitions of complementary businesses to expand our fleet, customer base and geographic scope, and to increase the breadth of services we provide within the compression industry. Additionally, we believe that our experience in integrating acquired companies into our business will allow us to realize the benefits of additional acquisitions.

### **Industry**

#### *Natural Gas Compression Overview*

Natural gas compression is a mechanical process whereby a volume of gas at an existing pressure is compressed to a desired higher pressure. We offer both slow and high speed reciprocating compressors driven either by internal combustion engines or electric motors. We also offer screw compressors for applications involving low pressure natural gas. Most natural gas compression applications involve compressing gas

for its delivery from one point to another. Low pressure or aging natural gas wells require compression for delivery of produced gas into higher pressured gas gathering or pipeline systems. Compression at the wellhead is required because, over the life of an oil or gas well, natural reservoir pressure typically declines as reserves are produced. As the natural reservoir pressure of the well declines below the line pressure of the gas gathering or pipeline system used to transport the gas to market, gas no longer naturally flows into the pipeline. It is at this time that compression equipment is applied in both field and gathering systems to boost the well's pressure levels and allow gas to be brought to market. Compression is also used to reinject natural gas down producing oil wells to help lift liquids to the surface, known as gas lift operations. In secondary oil recovery operations, compression is used to inject natural gas into wells to maintain reservoir pressure. Compression is also used in gas storage projects to inject gas into underground reservoirs during off-peak seasons for withdrawal later during periods of high demand. Compressors may also be used in combination with oil and gas production equipment to process and refine oil and gas into more marketable energy sources. In addition, compression services are used for compressing feedstocks in refineries and petrochemical plants, and for refrigeration applications in natural gas processing plants.

Typically, compression is required several times during the natural gas production cycle: at the wellhead, at the gathering lines, into and out of gas processing facilities, into and out of storage facilities and through the pipeline. Natural gas compression that is used to transport produced gas from the wellhead through the gathering system is considered "field compression." Natural gas compression that is used during the transportation of gas from the gathering systems to storage or the end-user is considered "pipeline compression." During the production phase, compression is used to boost the pressure of natural gas from the wellhead so that natural gas can flow into the gathering system or pipeline for transmission to end-users. Typically, these applications require portable, low to mid-range horsepower compression equipment located at or near the wellhead. The continually dropping pressure levels in natural gas fields require constant modification and variation of on-site compression equipment.

Compression equipment is also used to increase the efficiency of a low capacity gas field by providing a central compression point from which the gas can be produced and injected into a pipeline for transmission to facilities for further processing. In an effort to reduce costs for wellhead operators, operators of gathering systems tend to keep the pressure of the gathering systems low. As a result, more pressure is often needed to force the gas from the low pressure gathering systems into the higher pressure pipelines. Similarly, as gas is transported through a pipeline, compressor units are applied all along the pipeline to allow the natural gas to continue to flow through the pipeline to its destination. These applications generally require larger horsepower compression equipment (600 horsepower and higher).

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Gas producers, transporters and processors have historically owned and maintained most of the compression equipment used in their operations. However, in recent years, there has been a growing trend toward outsourcing compression equipment. Changing well and pipeline pressures and conditions over the life of a well often require producers to reconfigure their compressor units to optimize the well production or pipeline efficiency.

Outsourcing contract compression equipment offers customers:

the ability to efficiently meet their changing compression needs over time while limiting their capital investments in compression equipment;

access to the compression service provider's specialized personnel and technical skills, including engineers, field service and maintenance employees, which generally leads to improved run-times and production rates; and

overall reduction in their compression costs through the elimination of a spare parts inventory and other expenditures associated with owning and maintaining compressor units.

Customers that elect to outsource compression equipment may also choose full maintenance or contract compression for such equipment. Full maintenance calls for the contract compression service provider to be responsible for the scheduled preventative maintenance, repair and general up-keep of the equipment, while the customer usually remains responsible for installing and handling the day-to-day operation of the equipment. Contract compression requires the contract compression service provider to maintain and operate and, in many cases, to install the equipment. Often, the contract compression service provider will inspect the equipment daily, provide consumables such as oil and antifreeze and, if necessary, be present at the site for several hours each day.

*Natural Gas Industry Conditions*

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A significant factor in the growth of the gas compression services market is the increasing demand and consumption of natural gas, both domestically and internationally, rather than the more cyclical oil and gas exploration and drilling activities.

In the United States, natural gas is the second leading fuel in terms of total consumption. In recent years, natural gas has increased its market share of total domestic energy consumption. Domestic consumption of natural gas increased significantly from 1990 to 2000, before declining in 2001 due to an economic slowdown. Industry sources forecast increased consumption of natural gas in the United States in 2002 and for the remainder of the decade.

Domestic field compression horsepower is estimated to be 17 million, up from 10 million in 1993, and the percent outsourced is estimated to have increased to 34% from 20% over the same time period. We believe the domestic gas compression market will continue to grow due to the following factors:

higher natural gas consumption;

the aging of producing natural gas fields in the United States, which will require more compression to continue producing the same volume of natural gas; and

increased outsourcing by companies with compression needs in order to reduce operating costs, improve production and efficiency and reallocate capital to their core business activities.

The international gas compression services market currently is substantially smaller than the domestic market. However, we estimate significant growth opportunities in international demand for compression services and products due to the following factors:

higher natural gas consumption;

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implementation of international environmental and conservation laws preventing the practice of flaring natural gas and recognition of natural gas as a clean air fuel;

a desire by a number of oil exporting nations to replace oil with natural gas as a fuel source in local markets to allow greater export of oil;

increasing development of pipeline infrastructure, particularly in Latin America and Canada, necessary to transport natural gas to local markets;

growing demand for electrical power generation, for which the fuel of choice tends to be natural gas; and

privatization of state-owned energy producers, resulting in increased outsourcing due to the focus on reducing capital expenditures and enhancing cash flow and profitability.

In contrast to the domestic compression market, the international compression market is comprised primarily of large horsepower compressors that are maintained and operated by compression service providers. A significant portion of this market involves comprehensive installation projects, which include the design, fabrication, delivery, installation, operation and maintenance of compressors and related gas treatment equipment by the contract compression service provider. In these projects, the customer's only responsibility is to provide fuel gas within specifications. As a result of the full service nature of these projects and that these compressors generally remain on-site for three to seven years, we are able to achieve higher revenues and margins on these projects.

## Operations

### *Contract Compressor Fleet*

We have standardized our contract compressor fleet around three primary gas compressor platforms based on smaller horsepower applications (less than 150 horsepower), mid-range applications (150-600 horsepower) and larger horsepower applications (over 600 horsepower). These three compressor platforms represent over 90% of our horsepower. In recent years there has been substantial growth in customer demand in the over 600 horsepower category and as a result we have increased the average horsepower of our fleet and have increased our fabrication of upper range units (generally over 600 horsepower). Since our initial public offering in May 2000, the total horsepower of our fleet has increased by 218%. For the year ended March 31, 2002, the average horsepower utilization rate for our fleet was approximately 88.8%, which reflects average horsepower utilization based upon our total average fleet horsepower. For the quarter ended March 31, 2002, this average rate was approximately 86.8%.

As of March 31, 2002, our fleet consisted of 7,393 compressors ranging in size up to 3,400 horsepower, as reflected in the following table:

| Horsepower Range | Total Horsepower as of<br>March 31, |           | % of<br>Horsepower as<br>of March 31, |      | Number of Units as<br>of<br>March 31, |       |
|------------------|-------------------------------------|-----------|---------------------------------------|------|---------------------------------------|-------|
|                  | 2001                                | 2002      | 2001                                  | 2002 | 2001                                  | 2002  |
| 0 - 99           | 203,123                             | 196,024   | 10.8                                  | 8.8  | 3,083                                 | 2,652 |
| 100 - 299        | 444,836                             | 462,751   | 23.6                                  | 20.7 | 2,625                                 | 2,688 |
| 300 - 599        | 328,378                             | 349,250   | 17.4                                  | 15.6 | 864                                   | 917   |
| 600 - 999        | 327,788                             | 380,251   | 17.4                                  | 17.0 | 452                                   | 517   |
| 1,000 and over   | 581,463                             | 847,752   | 30.8                                  | 37.9 | 440                                   | 619   |
| Total            | 1,885,588                           | 2,236,028 | 100%                                  | 100% | 7,464                                 | 7,393 |

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Our standardized fleet:

enables us to minimize our fleet maintenance capital requirements;

enables us to minimize inventory costs;

facilitates low-cost compressor resizing; and

allows us to develop technical proficiency in our maintenance and overhaul operations, which enables us to achieve high run-time rates while maintaining low operating costs.

### *Domestic Operations*

As of March 31, 2002, we operated one of the largest domestic fleets of natural gas compressors with approximately 6,800 units comprising approximately 1.9 million horsepower. We operate sales and service locations in the primary onshore and offshore natural gas producing regions of the United States. For the year ended March 31, 2002, approximately 81.6% of our contract compression revenue and 39.3% of our total revenue was generated from domestic contract compression operations.

We believe that our fabrication and aftermarket services business provide us with opportunities to cross-sell our contract compression services.

We have standard contracts for rates and terms on the compressors in our fleet. We also enter into master service agreements whereby we generally provide full maintenance. Through negotiations, these rates and contracts may be modified. Optional items such as oil, antifreeze,

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freight, insurance and other items may be either itemized or included in the basic monthly contract compression rate. Initial contract compression terms are usually six months, with some projects committed for as long as five years. At the end of the initial term, contract compression services can continue at the option of the lessee on a month-to-month basis or the compressor may be returned or replaced with a different compressor.

### *International Operations*

We operate internationally in Argentina, Canada, Mexico, Colombia, Thailand, Australia, Venezuela, Peru and Brazil in large part as a result of our acquisitions. As of March 31, 2002, we had approximately 500 units comprising approximately 345,000 horsepower, in the aggregate, in these markets. We intend to continue to expand our presence in these markets and pursue opportunities in other strategic international areas. For the year ended March 31, 2002, 23% of our total revenue was generated from international operations, of which approximately 8.9% represents contract compression revenue.

International compression service projects usually generate higher margins than domestic projects. Our international operations are focused on large horsepower compressor markets and frequently involve longer-term and more comprehensive service projects than our domestic projects. International projects generally require us to provide complete engineering and design. International service agreements differ significantly from domestic service agreements as individual contracts are negotiated for each project. We believe our extensive engineering and design capabilities and reputation for high quality fabrication give us a competitive advantage in these markets.

### *Contract Compression*

We provide comprehensive contract compression services, which includes rental, operation and maintenance services for our domestic and international fleet. When providing full contract compression service, we work closely with a customer's field service personnel so that the compressor can be adjusted to efficiently match changing characteristics of the gas produced. We provide maintenance services on substantially all of our fleet units. Maintenance services include the scheduled

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preventive maintenance, repair and general up-keep of compressor equipment. As a complement to our maintenance business, we offer supplies and services such as antifreeze, lubricants, and prepaid freight to the job site. We also may offer installation services, which for our typical lower, mid-range and smaller horsepower units involves significantly less engineering and cost than the comprehensive service concept prevalent in the international markets. We also routinely repackage or reconfigure some of our existing fleet to adapt to our customers' needs.

We generally operate the large horsepower compressors and include the operations fee as part of its contract compression rate. Large horsepower units are more complex and, by operating the equipment ourselves, we reduce maintenance and overhaul expenses. Generally, we train our customers' personnel in fundamental compressor operations of smaller horsepower units so that they may operate them.

We currently maintain overhaul and repackaging facilities in Edmonton, Alberta, Canada and in Houma, Louisiana, Yukon, Oklahoma and Schulenberg, Texas, in addition to our fabrication and repackaging facilities in Calgary, Alberta, Canada and Houston, Texas. Following our Weatherford Global acquisition, we closed a number of facilities, including our fabrication, overhaul and repackaging facility in Corpus Christi, Texas, and have combined some of our operating activities.

Our field compression equipment is maintained in accordance with daily, weekly, monthly and annual maintenance schedules. These maintenance procedures are updated as technology changes and as our operations group develops new techniques and procedures. In addition, because our field technicians provide maintenance on substantially all of our contract compression equipment, they are familiar with the condition of our equipment and can readily identify potential problems. In our experience, these procedures maximize equipment life and unit availability and minimize avoidable downtime. Generally, each of our units undergoes a major overhaul once every six to eight years. A major overhaul involves the rebuilding of the unit in order to materially extend its useful life or to enhance the unit's ability to fulfill broader or different contract compression applications.

### *Fabrication*

As a complement to our contract compression service operations, we design, engineer, fabricate and sell natural gas and air compressors for engineering and construction firms, as well as for exploration and production companies, both domestically and internationally. We also fabricate compressors for our own fleet. Our primary fabrication facilities are located in Houston and Schulenberg, Texas, Tulsa, Oklahoma, and Calgary, Alberta, Canada.

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Generally, compressors to be sold to third parties are assembled according to each customer's specifications and sold on a turnkey basis, although we also sell prepacked compressors. We purchase components for these compressor units from third party suppliers. We also act as a distributor for Ariel gas compressors and as an original equipment manufacturer for Atlas Copco air compressors. Some of the compressors manufactured by these entities are used by us in our fabrication services. For the year ended March 31, 2002, approximately 31.1% or \$211.3 million of our total revenues were generated from fabrication operations.

We do not incur material research and development expenditures, as research and development activities are not a significant aspect of our business. All research and development costs are expensed as incurred.

### *Aftermarket Services*

Our aftermarket services business sells parts and components, and provides maintenance to customers who own their compression equipment or lease their equipment from our competitors. For

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the year ended March 31, 2002, we generated \$141 million in revenues, or 20.7% of our total revenues, from this segment of our business.

Our inventory of parts is available either on an over-the-counter basis through our 17 service locations in the United States and four in Canada, on a bid basis for larger orders, or as part of our compressor maintenance service. Our maintenance services are available on an individual call basis, on a contract basis (which may cover a particular unit, an entire compression project or all of the customer's compression projects) or as part of our comprehensive operation and maintenance service. We also provide offshore maintenance and service. In addition, we provide overhaul and reconfiguration services for customer-owned compression equipment, either on-site or in our overhaul shops.

### **Customers**

Our current customer base consists of over 1,000 domestic and international companies engaged in all aspects of the oil and gas industry, including major integrated oil and gas companies, international state-owned oil and gas companies, large and small independent producers, natural gas processors, gatherers and pipelines. We have entered into strategic alliances with some of our customers. These alliances are essentially preferred vendor arrangements and give us preferential consideration for the compression needs of these customers. In exchange, we provide these customers with enhanced product availability, product support and favorable pricing.

In the fiscal year ended March 31, 2002, no single customer accounted for as much as 10% of our total revenues. Our top 20 customers accounted for approximately 29% of our contract compression revenues in fiscal year 2002.

### **Suppliers**

Our principal suppliers include Caterpillar and Waukesha for engines, Air Xchangers for coolers, and Ariel and Gemini for compressors. We also purchase a significant number of Cooper compressors in Canada for sale to customers. Although we rely primarily on these suppliers, we believe alternative sources are generally available. We have not experienced any material supply problems to date, and we believe our relations with our suppliers are good.

In addition, in December 1999, Weatherford Global sold the assets and properties of its Gemini compressor business in Corpus Christi, Texas to GE Packaged Power LP. Under the terms of that sale, Weatherford Global agreed to purchase from GE Packaged Power \$38.0 million of compressor components over five years and \$3.0 million of parts over three years, and GE Packaged Power agreed to provide compressors to Weatherford Global during that time period at negotiated prices. We assumed this obligation in connection with the Weatherford Global acquisition in February 2001. As of March 31, 2002, \$22.2 million of components and \$9.1 million of parts had been purchased.

### **Backlog**

As of March 31, 2002, we had a compressor unit fabrication backlog for sale to third parties of approximately \$80.0 million, compared to \$34.2 million as of March 31, 2001. As of June 14, 2002, our backlog increased to approximately \$103 million. A majority of the backlog is expected to be completed within a 180-day period.

### **Insurance**

We believe that our insurance coverage is customary for the industry and adequate for our business. As is customary in the natural gas service operations industry, we review our safety equipment and procedures and carry insurance against some, but not all, risks of our business. Losses and

liabilities not covered by insurance would reduce our revenues and increase our costs. The natural gas service operations business can be hazardous, involving unforeseen circumstances such as uncontrollable flows of gas or well fluids, fires and explosions or environmental damage. To address the hazards inherent in our business, we maintain insurance coverage that includes physical damage coverage, third party general liability insurance, employer's liability, including well control, environmental and pollution and other coverage, although coverage for environmental and pollution-related losses is subject to significant limitations. In addition, many of our service contracts shift certain risks to our customers.

### **Competition**

The natural gas contract compression, fabrication and aftermarket services businesses are highly competitive. We face competition from large national and multinational companies with greater financial resources and, on a regional basis, from numerous smaller companies.

Our main competitors in the contract compression business, based on horsepower, are Hanover Compressor Company, Compressor Systems, Inc. and J-W Operating Company. In addition, Weatherford and its subsidiaries may continue to compete with us as they are not contractually restricted from doing so. In our fabrication activities, we currently compete primarily with Hanover Compressor Company, Compressor Systems, Inc. and Enerflex Systems, Ltd. Our aftermarket services business faces competition from manufacturers including Cooper Cameron, Dresser-Rand and Hanover Compressor Company, from distributors of Caterpillar and Waukesha engines, from a number of smaller companies and, in Canada, from Enerflex.

We believe that we compete effectively on the basis of customer service, including the availability of our personnel in remote locations, price, technical expertise, parts service system, flexibility in meeting customer needs and quality and reliability of our compressors and related services.

### **Environmental and Other Regulations**

We are subject to stringent and complex federal, state and local laws and regulations regarding the environment, emission controls and other environmental protection as well as employee health and safety concerns. Compliance with these laws and regulations may affect the costs of our operations. Moreover, failure to comply with these environmental laws and regulations may result in the imposition of administrative, civil, and criminal penalties. Not all of our properties may be in full compliance with all applicable environmental requirements. However, as part of the regular evaluation of our operations, we update the environmental condition of our existing and acquired properties as necessary. Overall, we believe that we are in substantial compliance with applicable environmental laws and regulations and that the phasing in of more stringent emission controls and other known regulatory requirements at the rate currently contemplated by such laws and regulations will not have a material adverse effect on our business, financial condition or results of operations.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, referred to as "CERCLA," and comparable state laws and regulations, strict and, under certain circumstances, joint and several liability can be imposed without regard to fault or the legality of the original conduct on certain classes of persons that contributed to the release of a hazardous substance into the environment. These persons include the owner and operator of a contaminated site where a hazardous substance release occurred and any company that transported, disposed of, or arranged for the transport or disposal of hazardous substances released at the site. Under CERCLA, such persons may be liable for the costs of remediating the hazardous substances that have been released into the environment and for damages to natural resources. In addition, where contamination may be present it is not uncommon for the neighboring land owners and other third parties to file claims for personal injury, property damage and recovery of response costs.

As part of our operations, we generate wastes, including hazardous wastes such as used paints and solvents. The management and disposal of hazardous wastes are subject to the Resource Conservation and Recovery Act, referred to as "RCRA," and comparable state laws. These laws and the regulations implemented thereunder govern the generation, storage, treatment, transfer and disposal of hazardous and nonhazardous

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wastes. The United States Environmental Protection Agency and various state agencies have limited the approved methods of disposal for certain hazardous and nonhazardous wastes.

We currently own or lease, and have in the past owned or leased, a number of properties that have been used, some for many years, by third parties over whom we have no control, in support of natural gas compression services or other industrial operations. As with any owner or operator of property, we may be subject to remediation costs and liability under CERCLA, RCRA or other environmental laws for hazardous waste, asbestos or any other toxic or hazardous substance that may exist on or under any of our properties, including waste disposed or groundwater contaminated by prior owners or operators. We have performed in the past, are currently performing and may perform in the future, certain remediation activities governed by environmental laws. The cost of this remediation has not been material to date and we currently do not expect it to be. We are currently undertaking groundwater monitoring at certain of our facilities, which may further define remedial obligations. Certain of our acquired properties may also warrant groundwater monitoring and other remedial activities. We believe that former owners and operators of many of these properties may be responsible under environmental laws and contractual agreements to pay for or perform remediation, or to indemnify us for our remedial costs. These other entities may fail to fulfill their legal or contractual obligations, which could result in material costs to us.

Our standard contract typically provides that the customer will assume all environmental compliance and permitting obligations and environmental risks related to compressor operations, even in cases where we operate and maintain the compressors on their behalf. Under most of our contract compression service agreements, our customers must indemnify us for certain losses or liabilities we may suffer as a result of the failure to comply with applicable environmental laws, including requirements pertaining to necessary permits such as air permits.

Air pollutant emissions from natural gas compressor engines are an environmental concern for the natural gas transportation industry. Proposed federal regulations, if promulgated in their current form, are expected to impose or increase obligations of operators to reduce air emissions of nitrogen oxides and other pollutants from internal combustion engines in transmission service. In most cases, these obligations would be allocated to our customers under the above-mentioned contracts.

Stricter standards in environmental legislation or regulations that may affect us may be imposed in the future, such as proposals to make hazardous wastes subject to more stringent and costly handling, disposal and remediation requirements. Accordingly, new environmental laws or regulations or amendments to existing environmental laws or regulations (including, but not limited to, regulations concerning ambient air quality standards, waste water and storm water discharge, and global climate change) could require us to undertake significant capital expenditures and could otherwise have a material adverse effect on our business, results of operations and financial condition.

Our international operations are potentially subject to similar governmental controls and restrictions relating to the environment. We believe that we are in substantial compliance with any such foreign requirements pertaining to the environment.

Since 1992, there have been various proposals to impose taxes with respect to the energy industry, none of which have been enacted and all of which have received significant scrutiny from various industry lobbyists. At the present time, given the uncertainties regarding the proposed taxes, including the uncertainties regarding the terms which the proposed taxes might ultimately contain and the

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industries and persons who may ultimately be the subject of such taxes, it is not possible to determine whether any such tax will have a material adverse effect on us.

### **Employees and Labor Relations**

As of March 31, 2002, we had approximately 1,700 employees in the United States and 570 employees located outside of the United States. We believe our relationship with our employees is good. Approximately 100 of our employees in Canada are covered by a collective bargaining agreement, which expires in June 2002. We are currently in negotiations to renew this agreement.

### **ITEM 2. Properties**

The following table describes our material facilities owned or leased as of May 31, 2002, none of which are pledged as collateral:

| <u>Location</u> | <u>Square<br/>Feet</u> | <u>Acreage</u> | <u>Status</u> | <u>Uses</u> |
|-----------------|------------------------|----------------|---------------|-------------|
|-----------------|------------------------|----------------|---------------|-------------|

|                          |         |      |        |  |
|--------------------------|---------|------|--------|--|
| Houston, Texas           | 164,000 | 30.0 | Owned  | Corporate headquarters, fabrication, contract compression and aftermarket services |
| Calgary, Alberta, Canada | 105,760 | 9.22 | Owned  | Fabrication, contract compression and aftermarket services                         |
| Tulsa, Oklahoma          | 100,000 | 10.1 | Owned  | Fabrication, contract compression and aftermarket services                         |
| Yukon, Oklahoma          | 72,000  | 14.7 | Owned  | Contract compression and aftermarket services                                      |
| Houma, Louisiana         | 60,000  | 91.0 | Owned  | Aftermarket services   |
| Schulenberg, Texas       | 23,000  | 13.3 | Owned  | Fabrication, contract compression and aftermarket services                         |
| Broussard, Louisiana     | 24,700  | 10.0 | Leased | Contract compression and aftermarket services                                      |

**ITEM 3. Legal Proceedings**

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We do not believe we are party to any legal proceedings which, if determined adversely to us, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2002.

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**PART II**

**ITEM 5. Market for Registrants' Common Equity and Related Stockholder Matters**

Universal Compression Holdings, Inc.'s common stock is traded on the New York Stock Exchange under the symbol "UCO." The following table sets forth the range of high and low sale prices for our common stock for the periods indicated, beginning on May 24, 2000, the first day of trading for our common stock:

|                               | Price Range |          |
|-------------------------------|-------------|----------|
|                               | High        | Low      |
| Quarter Ended:                |             |          |
| June 30, 2000                 | \$ 35.50    | \$ 20.63 |
| September 30, 2000            | 34.13       | 22.13    |
| December 31, 2000             | 39.50       | 25.50    |
| March 31, 2001                | 40.50       | 31.88    |
| June 30, 2001                 | \$ 37.95    | \$ 25.75 |
| September 30, 2001            | 31.15       | 22.23    |
| December 31, 2001             | 30.15       | 18.80    |
| March 31, 2002                | 29.37       | 16.75    |
| Through June 18 <sup>th</sup> | 27.00       | 19.50    |

On June 18, 2002, the closing price of our common stock was \$20.66 per share. As of June 1, 2002, there were approximately 600 holders of record of our common stock.

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We have never declared or paid any cash dividends to our stockholders and do not plan to pay any cash dividends in the foreseeable future. We currently intend to retain our earnings for use in the operation and expansion of our business. Furthermore, our revolving credit facility, operating lease facilities, senior discount notes indenture and other financing arrangements restrict the payment of dividends. Any future determination as to the declaration and payment of dividends will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors considers relevant.

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### ITEM 6. Selected Financial Data

#### SELECTED HISTORICAL FINANCIAL DATA

#### UNIVERSAL COMPRESSION HOLDINGS, INC.

The following selected historical consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this report. The selected historical financial and operating data for Tidewater Compression, our predecessor, for the period from April 1, 1997 through February 20, 1998 (acquisition date) and the selected historical financial data as of and for the 39-day period ended March 31, 1998 and each of the four years in the period ended March 31, 2002 have been derived from the respective audited financial statements. The consolidated financial statements and report thereon, for the year ended March 31, 2002 are included elsewhere in this report.

|  | Tidewater Compression<br>(Predecessor Company)<br>April 1, 1997<br>through<br>February 20,<br>1998 | Company  |                      |            |            |            |
|--|--|--|----------------------|------------|------------|------------|
|  |  | December 12,<br>1997 through<br>March 31,<br>1998(4) | Year Ended March 31, |            |            |            |
|  |  |  | 1999                 | 2000       | 2001       | 2002       |
| (In thousands, except per share data)        |  |  |                      |            |            |            |
| <b>Statement of Operations Data:</b>         |  |  |                      |            |            |            |
| Revenues                                     | \$ 95,686  | \$ 13,119  | \$ 129,498           | \$ 136,295 | \$ 232,466 | \$ 679,989 |
| Gross margin(1)                              | 47,752   | 6,891  | 61,887               | 69,000     | 109,407    | 268,346    |
| Selling, general and administrative expenses | 8,669  | 1,305  | 16,863               | 16,797     | 21,092     | 60,890     |
| Depreciation and amortization                | 23,310   | 1,560  | 19,314               | 26,006     | 33,491     | 48,600     |
| Operating income(2)                          | 15,773   | 4,026  | 25,729               | 26,197     | 54,824     | 158,856    |
| Interest expense, net                        |  | 3,203  | 29,313               | 34,327     | 23,220     | 23,017     |
| Operating lease expense                      |  |  |                      |            | 14,443     | 55,401     |
| Income tax expense (benefit)                 | 6,271  | 409  | (1,031)              | (1,994)    | 3,645      | 30,931     |
| Income (loss) before extraordinary items     | 10,759   | 430  | (2,361)              | (5,982)    | 5,112      | 49,408     |
| Net income (loss)                            | 10,759   | 430  | (2,361)              | (5,982)    | (4,391)    | 49,408     |
| Earnings (loss) per share                    |  |  |                      |            |            |            |
| Basic  |  |  | (0.96)               | (2.44)     | (0.30)     | 1.65       |
| Diluted                                      |  |  | (0.96)               | (2.44)     | (0.29)     | 1.63       |
| Weighted Average common stock outstanding    |  |  |                      |            |            |            |
| Basic  |  |  | 2,451                | 2,448      | 14,760     | 30,008     |
| Diluted                                      |  |  | 2,451                | 2,448      | 15,079     | 30,250     |
| <b>Other Financial Data:</b>                 |  |  |                      |            |            |            |
| EBITDA, as adjusted(3)                       | \$ 40,340  | \$ 5,930   | \$ 48,435            | \$ 55,557  | \$ 88,610  | \$ 207,584 |
| Capital expenditures:                        |  |  |                      |            |            |            |
| Expansion                                    | (11,902)   | (1,820)  | (63,408)             | (49,871)   | (55,384)   | (137,790)  |
| Overhauls                                    | (5,698)  | (218)  | (7,626)              | (9,920)    | (9,901)    | (27,000)   |





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|                                   | Tidewater Compression<br>(Predecessor Company) | Company  |          |          |           |           |  |
|-----------------------------------|--|--|----------|----------|-----------|-----------|--|
|                                   |  | April 1, 1997<br>through<br>February 20,<br>1998 |          |          |           |           |  |
| Expansion                         | (11,902)                                       | (1,820)  | (63,408) | (49,871) | (55,384)  | (137,790) |  |
| Overhauls                         | (5,698)  | (218)  | (7,626)  | (9,920)  | (9,901)   | (27,000)  |  |
| Other                             | 3,803  | (351,107)  | 8,038    | (1,312)  | (2,721)   | (23,229)  |  |
| Cash flows provided by (used in): |  |  |          |          |           |           |  |
| Operating activities              | 33,491   | (699)  | 24,042   | 47,029   | 247,941   | 131,837   |  |
| Investing activities              | (13,797)                                       | (353,145)  | (62,996) | (61,103) | (3,318)   | (160,256) |  |
| Financing activities              | (17,870)                                       | 356,226  | 39,499   | 12,550   | (234,592) | 22,316    |  |

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As of March 31,

|  | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|------|------|------|------|------|
|--|------|------|------|------|------|

(In thousands)

**Balance Sheet Data:**

|                      |           |           |          |            |            |
|----------------------|-----------|-----------|----------|------------|------------|
| Working capital(5)   | \$ 13,882 | \$ 22,288 | \$ 5,869 | \$ 97,382  | \$ 139,544 |
| Total assets         | 379,108   | 436,487   | 466,345  | 1,171,534  | 1,276,781  |
| Total debt(6)        | 261,508   | 316,348   | 345,832  | 215,107(7) | 226,762(7) |
| Stockholder's equity | 105,797   | 105,308   | 101,445  | 647,624    | 695,396    |

- (1) Gross margin is defined as total revenue less (a) contract compression expenses, (b) cost of sales (exclusive of depreciation and amortization).
- (2) Operating income is defined as income before income tax expense (benefit) plus non-recurring items, other (income)/expense, net, interest expense and operating lease expense.
- (3) EBITDA, as adjusted, is defined as net income plus income taxes, interest expense, leasing expense, management fees, depreciation and amortization excluding non-recurring items and extraordinary gains or losses. EBITDA, as adjusted, represents a measure upon which management assesses financial performance, and financial covenants in our current borrowing arrangements are tied to similar measures. The financial covenants in our current financing arrangements permit us to exclude non-recurring and extraordinary gains and losses. EBITDA, as adjusted, is not a measure of financial performance under GAAP and should not be considered an alternative to operating income or net income as an indicator of our operating performance or to net cash provided by operating activities as a measure of our liquidity. Additionally, the EBITDA, as adjusted, computation used herein may not be comparable to other similarly titled measures of other companies.

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

|                               | Tidewater Compression<br>(Predecessor Company) | Company  |   |                      |           |            |      |
|-------------------------------|--|--|---|----------------------|-----------|------------|------|
|                               |  | April 1, 1997<br>through<br>February 20,<br>1998 | December 12,<br>1997 through<br>March 31,<br>1998 | Year Ended March 31, |           |            |      |
|                               |  |  |   | 1999                 | 2000      | 2001       | 2002 |
| (In thousands)                |  |  |   |                      |           |            |      |
| EBITDA, as adjusted           | \$ 40,340                                      | \$ 5,930   | \$ 48,435   | \$ 55,557            | \$ 88,610 | \$ 207,584 |      |
| Depreciation and amortization | (23,310)                                       | (1,560)  | (19,308)  | (26,006)             | (33,485)  | (48,600)   |      |
| Operating lease expense       |  |  |   |                      | (14,443)  | (55,401)   |      |
| Interest expense, net         |  | (2,896)  | (26,251)  | (30,916)             | (22,622)  | (23,017)   |      |
| Management fee                |  | (328)  | (3,200)   | (3,200)              |           |            |      |

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|                                | Tidewater Compression<br>(Predecessor Company)   | Company |          |            |            |           |
|--------------------------------|--|---------|----------|------------|------------|-----------|
|                                | April 1, 1997<br>through<br>February 20,<br>1998 |         |          |            |            |           |
| Other, including non-recurring |  |         |          |            | (8,699)    | (227)     |
| Income tax (expense) benefit   | (6,271)  | (529)   | (166)    | 696        | (3,871)    | (30,931)  |
| Extraordinary loss, net        |  |         |          |            | (6,632)    |           |
| Net income (loss)              | \$ 10,759  | \$ 617  | \$ (489) | \$ (3,863) | \$ (1,142) | \$ 49,408 |

- (4) Represents our historical consolidated financial statements for the period from December 12, 1997 (inception) through March 31, 1998. However, we had no operations until the acquisition of Tidewater Compression on February 20, 1998.
- (5) Working capital is defined as current assets minus current liabilities.
- (6) Includes capital lease obligations.
- (7) Excludes \$527.5 million and \$708.5 million outstanding under our operating lease facilities as of March 31, 2001 and 2002, respectively.

**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

**UNIVERSAL COMPRESSION HOLDINGS, INC.**

*The following discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements, and the notes thereto, and the other financial information appearing elsewhere in this report. The following discussion includes forward-looking statements that involve certain risks and uncertainties. See "Part I. Disclosure Regarding Forward-Looking Statements" and "Risk Factors."*

**General**

We are the second largest provider of natural gas contract compression, sales, operations, maintenance and fabrication services to the natural gas industry in terms of compression fleet horsepower, with one of the largest natural gas compressor fleets in the United States and a strong presence in key international markets.

We were formed in December 1997 to acquire all of the outstanding stock of Tidewater Compression Service, Inc. Upon completion of the acquisition in February 1998, Tidewater Compression became our wholly-owned operating subsidiary and changed its name to Universal Compression, Inc. Through this subsidiary, our gas compression service operations date back to 1954.

During the quarter ended June 30, 2000, we completed an initial public offering of 7,275,000 shares of our common stock, par value \$0.01 per share, at a price of \$22.00 per share, which provided us with net proceeds (after deducting underwriting discounts and commissions) of approximately \$149.2 million. Concurrently with our initial public offering, we implemented a recapitalization pursuant to which all then existing classes of our stock were converted into common stock. We used the proceeds of the offering and the \$62.6 million in initial proceeds from an operating lease facility to repay \$192.7 million of indebtedness, and the remaining proceeds for working capital and to pay expenses associated with the offering and concurrent financing transactions.

On February 9, 2001, we completed our acquisition of Weatherford Global for 13,750,000 shares of our common stock (approximately 45% of our current total outstanding shares) and the restructuring of approximately \$323 million in debt and operating lease obligations.

On July 3, 2001, we completed the public offering of 1,333,333 shares of our common stock, together with 2,666,667 shares of our common stock sold by certain selling stockholders, including Castle Harlan Partners III, L.P. and its affiliates. The shares were sold in the offering at a price of \$28.50 per share, and the offering provided us with net proceeds (after deducting underwriting discounts and commissions)

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of approximately \$36.1 million. We used the proceeds to fund the cash portion of the purchase price for our acquisition of KCI, to repay a portion of KCI's indebtedness concurrently with the acquisition and to partially fund the purchase price of our acquisition of LCM. In addition, we issued 694,927 shares of our common stock in the acquisition of KCI.

Consummation of the July 2001 offering, and Castle Harlan's reduced ownership of our common stock following that offering, gave the holders of Universal's 9<sup>7</sup>/<sub>8</sub>% senior discount notes the right to require us to repurchase those notes at a price equal to 101% of the accreted value, plus accrued and unpaid interest to date. As a result, we repurchased approximately \$5.8 million face value of the 9<sup>7</sup>/<sub>8</sub>% senior discount notes in August 2001 using borrowings under our revolving credit facility.

Since our initial public offering, we have completed seven acquisitions. Our completed acquisitions include GCSI in September 2000, Weatherford Global and IEW in February 2001, CSII in April 2001, KCI and LCM in July 2001, and TCSI in October 2001. Weatherford Global was the second largest

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natural gas compression services company in the world in terms of horsepower. This acquisition added over 950,000 horsepower to our fleet and provided us with a number of important strategic and operational benefits, including expanded international operations, increased aftermarket services business and cost savings and synergies.

### Critical Accounting Policies

The following policies are important to gain an understanding of our operating results and financial condition and should be considered as an integral part of the financial review.

#### Estimates and Assumptions

In preparing our financial information, we use some estimates and assumptions that may affect reported amounts and disclosures. More specifically, in accounting for allowances and reserves, depreciation of fixed assets, operating leases, income taxes, revenues, warranty obligations, and contingencies and litigation, we must periodically evaluate and adjust, if necessary, our estimates and assumptions as new facts or information becomes available, such as accounting rule changes. Actual results may differ from these estimates under different assumptions or conditions.

#### Operating Leases

A significant portion of our compression equipment fleet is financed through operating leases, which are not recorded as liabilities and the equipment is not recorded as assets on our balance sheet. This treatment is in accordance with generally accepted accounting principles. If the operating leases and related equipment were recorded on the consolidated balance sheet as of March 31, 2002, total liabilities and total assets would have been increased by approximately \$594.2 million. In addition, if the leased equipment had been recorded as assets on our balance sheet, we would have recorded additional depreciation expense of approximately \$32 million and interest expense of approximately \$55 million related to this equipment, offset by a reduction of operating lease expense of approximately \$55 million on our consolidated statement of operations for the year ended March 31, 2002.

#### Allowances and Reserves

Our customers that purchase products and services are evaluated for credit worthiness prior to the extension of credit. We maintain an allowance for bad debts based on specific customer collection issues and historical experience. On an ongoing basis, we conduct an evaluation of the financial strength of our customers based on payment history and make adjustments to the allowance as necessary. Since most of our customers are in the energy industry, their ability to pay balances due could be affected by dramatic changes in the price and demand for their products.

Depreciation on properties and equipment is computed on the straight-line method based on estimated useful lives of 15 years for compression equipment and 2-25 years for properties and other equipment. Salvage values of 20% are used for compression equipment. Overhauls and major components related to compression equipment are depreciated over periods of 5-10 years. Overhauls and major improvements that increase the value or extend the life of contract compressor equipment are capitalized and depreciated over the estimated period of 6.5 years.

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We record a reserve against our inventory balance for estimated obsolescence. This reserve is based on specific identification and historical experience.

### Revenue Recognition

We recognize revenue for all our business segments using the following criteria: (a) persuasive evidence of an exchange arrangement exists, (b) delivery has occurred or services have been rendered, (c) the buyer's price is fixed or determinable and (d) collectibility is reasonably assured. Revenue from contract compression is recorded when earned over the period of the contract, which generally ranges

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from one month to several years. Fabrication revenue is recognized using the completed contract method, specifically when all terms of the contract have been completed and title to the product has been transferred. Aftermarket services revenue is recorded as products are delivered and services are rendered.

### Financial Results of Operations

*Fiscal Year Ended March 31, 2002 Compared to Fiscal Year Ended March 31, 2001*

The following table summarizes revenues, gross margins, expenses and the respective percentages for each of our business segments:

|  | Year Ended March 31,   |               |
|--|------------------------|---------------|
|  | 2001                   | 2002          |
|  | (dollars in thousands) |               |
| <b>Revenues:</b>                             |                        |               |
| Domestic contract compression                | \$ 126,686             | \$ 267,550    |
| % of revenue                                 | 54.5%                  | 39.3%         |
| International contract compression           | \$ 22,549              | \$ 60,185     |
| % of revenue                                 | 9.7%                   | 8.9%          |
| Fabrication                                  | \$ 61,779              | \$ 211,265    |
| % of revenue                                 | 26.6%                  | 31.1%         |
| Aftermarket services                         | \$ 21,452              | \$ 140,989    |
| % of revenue                                 | 9.2%                   | 20.7%         |
| <b>Gross Margin:</b>                         |                        |               |
| Domestic contract compression                | \$ 80,465              | \$ 169,892    |
| International contract compression           | 16,425                 | 43,411        |
| Fabrication                                  | 9,041                  | 24,347        |
| Aftermarket services                         | 3,476                  | 30,696        |
| <b>Expenses:</b>                             |                        |               |
| Depreciation and amortization                | (33,491)               | (48,600)      |
| Selling, general and administrative          | (21,092)               | (60,890)      |
| Operating lease expense                      | (14,443)               | (55,401)      |
| Interest expense, net                        | (23,220)               | (23,017)      |
| Income taxes                                 | (3,645)                | (30,931)      |
| <b>Net income before extraordinary items</b> | <b>5,112</b>           | <b>49,408</b> |

*Revenues.* Our total revenues for the fiscal year ended March 31, 2002 increased \$447.5 million, or 192.5%, to \$680 million, compared to \$232.5 million for the fiscal year ended March 31, 2001. Our contract compression revenues increased by \$178.5 million, or 119.6%, to \$327.7 million during the fiscal year ended March 31, 2002 from \$149.2 million during the fiscal year ended March 31, 2001. Domestic contract compression revenues increased by \$140.9 million, or 111.2%, to \$267.6 million during the fiscal year ended March 31, 2002 from \$126.7 million during the fiscal year ended March 31, 2001. Our international contract compression revenues increased by \$37.7 million, or 167.5%, to \$60.2 million during the fiscal year ended March 31, 2002 from \$22.5 million during the fiscal year ended March 31, 2001. The increase in domestic contract compression revenues primarily resulted from expansion of our contract compression fleet through the impact of a full year of operations from the Weatherford Global acquisition, the KCI acquisition and internal growth. The increase in international contract

compression revenue resulted from expansion of our international contract compression fleet primarily through the CSII acquisition and the impact of a full year of operations from the Weatherford Global acquisition.

Domestic average rented horsepower for the fiscal year ended March 31, 2002 increased by 107% to approximately 1,603,000 horsepower from approximately 776,000 horsepower for the fiscal year ended March 31, 2001, primarily due to the KCI acquisition and a full year of operations from the Weatherford Global and GCSI acquisitions. In addition, international average rented horsepower for the fiscal year ended March 31, 2002 increased by 240% to approximately 303,000 horsepower from approximately 89,000 horsepower for the fiscal year ended March 31, 2001, primarily through our acquisitions and expansion of our international contract compression fleet and high utilization rates. Our combined average horsepower utilization rate for the fiscal year ended March 31, 2002 was approximately 88.8%, up from 87.6% in the fiscal year ended March 31, 2001. As of March 31, 2002, we had approximately 2.2 million available horsepower with an average horsepower utilization rate for the quarter then ended of 86.8% and for the same period one year earlier of 88.8%.

Our revenue from fabrication increased to \$211.3 million from \$61.8 million, an increase of 242%. The increase in fabrication revenue, consisting mostly of equipment fabrication, was due primarily to our acquisition of KCI and the impact of a full year of operations from the Weatherford Global acquisition combined with internal growth. Revenues from fabrication vary quarter to quarter due to the recognition of revenues only at the time of shipment. Our backlog of fabrication projects at the fiscal year ended March 31, 2002 was approximately \$80.0 million, compared with a backlog of \$34.2 million at March 31, 2001. From December 31, 2001 to March 31, 2002, our backlog decreased \$21.0 million.

Our revenues from aftermarket services increased to \$141.0 million during the fiscal year ended March 31, 2002 from \$21.5 million during the fiscal year ended March 31, 2001, an increase of 556%. The increase was due primarily to the impact of a full year of operations from the Weatherford Global acquisition, and resulted in the aftermarket services segment becoming a more significant part of our business. In addition, the LCM and TCSI acquisitions increased revenues approximately \$23 million in the aggregate.

*Gross Margin.* Our gross margin (defined as total revenue less rental expense, cost of sales (exclusive of depreciation and amortization), gain on asset sales and interest income) for the fiscal year ended March 31, 2002 increased \$158.9 million, or 145.3%, to \$268.3 million from gross margin of \$109.4 million for the fiscal year ended March 31, 2001. Our contract compression gross margin for the fiscal year ended March 31, 2002 increased \$116.4 million, or 120%, to \$213.3 million compared to gross margin of \$96.9 million for the fiscal year ended March 31, 2001. Contract compression gross margin increased primarily as the result of our contract compression revenue growth and operating cost improvements realized by the integration of our contract compression business. Our fabrication gross margin for the fiscal year ended March 31, 2002 increased \$15.3 million, or 169%, to \$24.3 million compared to a gross margin of \$9.0 million for the fiscal year ended March 31, 2001. Fabrication gross margins increased primarily due to the impact of a full year of operations from Weatherford Global, a partial year of operations from KCI and synergies from the integration of these operations. Our aftermarket services gross margin for the fiscal year ended March 31, 2002 increased \$27.2 million or 783%, to \$30.7 million compared to a gross margin of \$3.5 million for the fiscal year ended March 31, 2001. Aftermarket services gross margin increased primarily due to the impact of a full year of operations from Weatherford Global and the acquisitions of TCSI and LCM.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by \$39.8 million to \$60.9 million for the fiscal year ended March 31, 2002, compared to \$21.1 million for the fiscal year ended March 31, 2001. Selling, general and administrative expenses represented 9.0% of revenue for the fiscal year ended March 31, 2002 compared to 9.1% of revenue for the fiscal year ended March 31, 2001.

EBITDA, as adjusted, for the fiscal year ended March 31, 2002 increased 134.3% to \$207.6 million from \$88.6 million for the fiscal year ended March 31, 2001, primarily due to increases in total fleet

horsepower and utilization of the compression contract compression fleet, gross margin contribution from fabrication and sales, and operating cost improvements realized by contract compression operations. EBITDA, as adjusted, is defined as net income plus income taxes, interest expense, leasing expense, management fees, depreciation and amortization, excluding non-recurring items and extraordinary gains or losses. EBITDA, as adjusted, is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to operating income or net income as an indicator of our operating performance or to net cash provided by operating activities as a measure of its liquidity. Additionally, the EBITDA, as adjusted, computation used herein may not be comparable to other similarly titled

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measures of other companies. EBITDA, as adjusted, represents a measure upon which management assesses financial performance, and financial covenants in our current borrowing arrangements are tied to similar measures. We believe that EBITDA, as adjusted, is a standard measure of financial performance used for valuing companies in the compression industry. EBITDA, as adjusted, is a useful common yardstick as it measures the capacity of companies to generate cash without reference to how they are capitalized, how they account for significant non-cash charges for depreciation and amortization associated with assets used in the business (the majority of which are long-lived assets in the compression industry), or what their tax attributes may be.

*Non-recurring Charges.* During the fiscal year ended March 31, 2001, we incurred non-recurring charges of \$8.7 million related to the early termination of a management agreement and a consulting agreement and other related fees in connection with our initial public offering and concurrent financing transactions as well as costs related to facilities and workforce reductions associated with our Weatherford Global acquisition.

*Depreciation and Amortization.* Depreciation and amortization increased by \$15.1 million to \$48.6 million during the fiscal year ended March 31, 2002, compared to \$33.5 million during the fiscal year ended March 31, 2001. The increase was primarily due to capital additions of \$188 million, which primarily resulted from expansion of our contract compression fleet, through our fabrication operations and the purchase of approximately \$60 million and \$13 million of contract compression equipment from the acquisitions of KCI and CSII, respectively. The increase in depreciation and amortization was partially offset by the net sales and leasebacks of compressor equipment, with a book value of approximately \$142.1 million, between April and October 2001 under our operating lease facilities.

*Operating Lease.* Operating lease expense increased to \$55.4 million during the fiscal year ended March 31, 2002 resulting from the increase in compression equipment leased under our operating lease facilities. The outstanding balance under the operating lease facilities at March 31, 2002 was \$708.5 million.

*Interest Expense, Net.* Interest expense, net, remained fairly constant at \$23.0 million for the fiscal year ended March 31, 2002 from \$23.2 million for the fiscal year ended March 31, 2001, primarily as a result of the repayment of the \$1.2 million revenue bonds, offset partially by increased accretion of Universal's 9<sup>7</sup>/<sub>8</sub>% senior discount notes.

*Extraordinary Loss.* During the fiscal year ended March 31, 2001, we incurred extraordinary losses of \$15.2 million (\$9.5 million net of income tax) related to debt restructurings that occurred concurrently with our initial public offering and the Weatherford Global acquisition.

*Net Income (Loss).* We had a net income of \$49.4 million for the fiscal year ended March 31, 2002 compared to a net loss of \$4.4 million (including extraordinary loss of \$9.5 million net of income taxes) for the fiscal year ended March 31, 2001, primarily as a result of the \$158.9 million increase in our gross margins and interest expense, net, remaining constant at approximately \$23.0 million, offset partially by increased depreciation and amortization of \$48.6 million related to the continued expansion of our assets, increased leasing expense of \$55.4 million resulting from the increase in compression

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equipment leased under our operating lease facilities, an increase in the income tax provision to \$30.9 million and a decrease in net income of \$2.4 million related to the Argentina political and economic situation.

*Fiscal Year Ended March 31, 2001 Compared to Fiscal Year Ended March 31, 2000*

The following table summarizes revenues, cost of sales, gross margins and the respective percentages for each of our business segments:

|                                    | Year Ended March 31,   |            |
|------------------------------------|------------------------|------------|
|                                    | 2000                   | 2001       |
|                                    | (dollars in thousands) |            |
| <b>Revenues:</b>                   |                        |            |
| Domestic contract compression      | \$ 83,577              | \$ 126,686 |
| % of revenue                       | 61.3%                  | 54.5%      |
| International contract compression | \$ 14,718              | \$ 22,549  |
| % of revenue                       | 10.8%                  | 9.7%       |

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|                                     | Year Ended March 31, |              |
|-------------------------------------|----------------------|--------------|
|                                     | 2001                 | 2000         |
| Fabrication                         | \$ 25,258            | \$ 61,779    |
| % of Revenue                        | 18.5%                | 26.6%        |
| Aftermarket services                | \$ 12,742            | \$ 21,452    |
| % of Revenue                        | 9.4%                 | 9.2%         |
| <b>Gross Margin:</b>                |                      |              |
| Domestic contract compression       | \$ 52,411            | \$ 80,465    |
| International contract compression  | 10,532               | 16,425       |
| Fabrication                         | 3,358                | 9,041        |
| Aftermarket services                | 2,699                | 3,476        |
| <b>Expenses:</b>                    |                      |              |
| Depreciation and amortization       | (26,006)             | (33,491)     |
| Selling, general and administrative | (16,797)             | (21,092)     |
| Operating lease expense             |                      | (14,443)     |
| Interest expense, net               | (34,327)             | (23,220)     |
| Income taxes                        | (1,944)              | (3,645)      |
| <b>Net income (loss)</b>            | <b>(5,982)</b>       | <b>5,112</b> |

*Revenues.* Our total revenues for the fiscal year ended March 31, 2001 increased \$96.2 million, or 70.7%, to \$232.5 million, compared to \$136.3 million for the fiscal year ended March 31, 2000. Our contract compression revenues increased by \$50.9 million, or 51.8%, to \$149.2 million during the fiscal year ended March 31, 2001 from \$98.3 million during the fiscal year ended March 31, 2000. Domestic contract compression revenues increased by \$43.1 million, or 51.6%, to \$126.7 million during the fiscal year ended March 31, 2001 from \$83.6 million during the fiscal year ended March 31, 2000. Our international contract compression revenues increased by \$7.8 million, or 53.1%, to \$22.5 million during the fiscal year ended March 31, 2001 from \$14.7 million during the fiscal year ended March 31, 2000. The increase in domestic contract compression revenues primarily resulted from expansion of our contract compression fleet through the acquisition of GCSI, Weatherford Global and internal growth. The increase in international contract compression revenues resulted from expansion of our international contract compression fleet primarily through the addition of horsepower from our acquisitions, high utilization rates and the impact of our Weatherford Global acquisition. During the quarter ended December 31, 2000, we started our first contract compression project in Mexico consisting of 10,000 horsepower. This project contributed approximately \$4.7 million in one-time turnkey installation revenues.

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Domestic average rented horsepower for the fiscal year ended March 31, 2001 increased by 61.0% to approximately 776,000 horsepower from approximately 482,000 horsepower for the fiscal year ended March 31, 2000. In addition, international average rented horsepower for the fiscal year ended March 31, 2001 increased by 81.6% to approximately 89,000 horsepower from approximately 49,000 horsepower for the fiscal year ended March 31, 2000, primarily through expansion of our international contract compression fleet, high utilization rates and additional service in Latin America. Our average horsepower utilization rate for the fiscal year ended March 31, 2001 was approximately 87.6%, up from 80.7% in the fiscal year ended March 31, 2000. As of March 31, 2000, we had approximately 1.9 million available horsepower with an additional 69,000 horsepower operated and maintained for customers. Our average horsepower utilization rate for the quarter ended March 31, 2001 was 88.8% and at March 31, 2001 was approximately 88.4%. These horsepower and utilization amounts include GCSI for the full fourth quarter and Weatherford Global for the 50 days from the date of the merger.

Our revenue from fabrication increased to \$61.8 million from \$25.3 million, an increase of 144.3%. The increase in fabrication revenue, consisting mostly of equipment fabrication, was due primarily to our acquisitions of GCSI and Weatherford Global. Revenues from fabrication vary quarter to quarter due to the recognition of revenues only at the time of shipment. Our backlog of fabrication projects at March 31, 2001 was approximately \$34.2 million, compared with a backlog of \$11.1 million at the same time a year earlier. From December 31, 2000 to March 31, 2001, our backlog increased \$3.7 million.

Our revenues from aftermarket services increased to \$21.5 million during the fiscal year ended March 31, 2001 from \$12.7 million during the fiscal year ended March 31, 2000, an increase of 69.3%. The increase was due primarily to our acquisitions of GCSI and Weatherford Global.

*Gross Margin.* Our gross margin for the fiscal year ended March 31, 2001 increased \$40.4 million, or 58.8%, to \$109.4 million from gross margin of \$69.0 million for the fiscal year ended March 31, 2000. Our contract compression gross margin for the fiscal year ended March 31, 2001 increased \$34.0 million, or 54.1%, to \$96.9 million compared to gross margin of \$62.9 million for the fiscal year ended March 31, 2000. Contract compression gross margin increased primarily as the result of our contract compression revenue growth discussed above and operating cost improvements realized by contract compression operations. Our fabrication gross margin for the fiscal year ended March 31, 2001 increased \$5.6 million, or 164.7%, to \$9.0 million compared to a gross margin of \$3.4 million for the fiscal year ended

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March 31, 2000. Fabrication gross margin increased primarily due to strong customer demand, cost reductions and their resulting gross margin effects.

Our aftermarket services gross margin for the fiscal year ended March 31, 2001 increased \$0.8 million or 29.6%, to \$3.5 million compared to a gross margin of \$2.7 million for the fiscal year ended March 31, 2000. Aftermarket services revenue increased primarily due to our acquisition of Weatherford Global.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses for the fiscal year ended March 31, 2001 increased \$4.3 million compared to the fiscal year ended March 31, 2000. Selling, general and administrative expenses represented 9.1% of revenue for the fiscal year ended March 31, 2001 compared to 12.3% of revenue for the fiscal year ended March 31, 2000. The percentage decrease was primarily due to the approximately \$4.7 million in one-time turnkey installation revenues associated with a large contract compression project in Mexico, the elimination of management fees in connection with our initial public offering in May 2000 and synergies achieved in our acquisitions of GCSI and Weatherford Global. These reductions have been offset partially by increases in certain expenses related to our operating as a publicly traded company.

EBITDA, as adjusted, for the fiscal year ended March 31, 2001 increased 59.4% to \$88.6 million from \$55.6 million for the fiscal year ended March 31, 2000, primarily due to increases in horsepower and utilization of the compression contract compression fleet, gross margin contribution from

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fabrication and sales, operating cost improvements realized by contract compression operations, and a decreased percentage of selling, general and administrative expenses, as discussed above.

*Non-recurring Charges.* During the fiscal year ended March 31, 2001, we incurred non-recurring charges of \$8.7 million related to the early termination of a management agreement and a consulting agreement and other related fees in connection with our initial public offering and concurrent financing transactions as well as costs related to facilities and workforce reductions associated with our Weatherford Global acquisition.

*Depreciation and Amortization.* Depreciation and amortization increased by \$7.5 million to \$33.5 million during the fiscal year ended March 31, 2001, compared to \$26 million during the fiscal year ended March 31, 2000. The increase resulted primarily from the expansion of our contract compression fleet, offset partially by the compressor equipment sold and leased back under our previous operating lease facility.

*Operating Lease.* We incurred leasing expense of \$14.4 million during the fiscal year ended March 31, 2001 resulting from our operating lease facilities. The outstanding balance under the operating lease facilities at March 31, 2001 was \$527.5 million.

*Interest Expense, Net.* Interest expense, net, decreased \$11.1 million to \$23.2 million for the fiscal year ended March 31, 2001 from \$34.3 million for the fiscal year ended March 31, 2000, primarily from the reduction of debt resulting from our initial public offering and financing restructurings. The decrease in interest expense was offset partially by increased accretion of Universal's 9<sup>7</sup>/<sub>8</sub>% senior discount notes and the assumption and refinancing of debt related to our GCSI acquisition.

*Extraordinary Loss.* During the fiscal year ended March 31, 2001, we incurred extraordinary losses of \$15.2 million (\$9.5 million net of income tax) related to debt restructurings that occurred concurrently with our initial public offering and the Weatherford Global acquisition.

*Net Income (Loss).* We had a net loss of \$4.4 million for the fiscal year ended March 31, 2001 compared to a net loss of \$6 million for the fiscal year ended March 31, 2000, primarily as a result of an increase in our gross margins and interest expense decreasing from \$34.4 million to \$24.2 million, offset partially by increased depreciation and amortization related to the continued expansion of our assets, leasing expense of \$14.4 million resulting from our operating lease facilities, non-recurring charges, an increase of the income tax provision to \$3.6 million from an income tax benefit of \$2 million, and an extraordinary loss of \$9.5 million.

### Effects of Inflation

In recent years, inflation has been modest and has not had a material impact upon the results of our operations.

### Liquidity and Capital Resources

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Our cash and cash equivalents balance at March 31, 2002 was \$6.2 million, compared to \$12.3 million at March 31, 2001.

During the twelve months ended March 31, 2002, cash flows from operations provided \$133.0 million, primarily from net income of \$49.4 million, depreciation of \$48.6 million, and accretion of Universal's 9<sup>7</sup>/<sub>8</sub>% senior discount notes of \$20.1 million.

During the twelve months ended March 31, 2002, we used \$160.3 million of cash for investing activities, which primarily consisted of \$188.0 million for fixed asset additions, \$160.0 million for acquisitions, largely funded by \$187.8 million from proceeds from sales of compression equipment to our operating lease facilities.

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During the twelve months ended March 31, 2002, \$21.1 million of cash was provided by financing activities, which primarily consisted of \$36.3 million from the issuance of common stock, partially offset by repayments of debt of \$7.4 million, issuance costs related to the operating lease facilities of \$4.1 million and payments on capital lease agreements of \$2.9 million.

On July 3, 2001, we completed the offering of 1,333,333 shares of our common stock together with 2,666,667, shares of our common stock sold by certain selling stockholders, including Castle Harlan. The shares were sold at a price of \$28.50 per share, and the offering provided us with net proceeds (after deducting underwriting discounts and commissions) of approximately \$36.1 million. We used the proceeds to fund the \$25.8 million cash portion of the purchase price in our acquisition of KCI, to repay a portion of KCI's indebtedness concurrently with the acquisition and to partially fund the purchase price of our acquisition of LCM.

Pursuant to the indenture governing Universal's 9<sup>7</sup>/<sub>8</sub>% senior discount notes, the holders of the notes had the right to require Universal to repurchase the notes through August 23, 2001 as a result of the consummation of the July 2001 equity offering as Castle Harlan's change in ownership to less than 20% of our common stock constituted a change of control under the indenture. We repurchased approximately \$5.8 million face value of these notes in August 2001 with borrowings under our revolving credit facility. As of May 31, 2002, Universal had approximately \$219.3 million aggregate principal amount outstanding under the 9<sup>7</sup>/<sub>8</sub>% senior discount notes.

On October 3, 2001, we completed our acquisition of TCSI for approximately \$22.5 million in cash by using funds available under our revolving credit facility.

On October 23, 2001, we sold an additional \$122 million of compression equipment to BRL Universal Equipment 2001 A, L.P. and leased the equipment back under our existing high yield operating lease facility. We used the net proceeds from the sale of the compression equipment to repay all of the outstanding indebtedness under our revolving credit facility, to repay a portion of our obligations under our ABS operating lease facility, for the payment of other indebtedness and for general corporate purposes. Most of the funds used to pay for the compression equipment under the high yield operating lease facility came from the issuance and sale by the issuers, BRL Universal Equipment 2001 A, L.P. and BRL Universal Equipment Corp., in October 2001 of \$100.0 million aggregate principal amount of additional 8<sup>7</sup>/<sub>8</sub>% senior secured notes due 2008 issued under an indenture dated February 9, 2001. The October 2001 notes increased the notes outstanding under the indenture to an aggregate principal amount of \$450.0 million.

In accordance with generally accepted accounting principles, our operating leases' aggregate balance of \$708.5 million as of March 31, 2002, was not recorded as a liability in our consolidated balance sheet as of that date except to the extent of approximately \$114.3 million of deferred gain. Likewise, the leased equipment under the operating leases, representing approximately 1.3 million horsepower and having a gross and net book value of approximately \$609.9 million and \$594.2 million, respectively, was not recorded as an asset in our March 31, 2002 consolidated balance sheet, and we did not record depreciation of that leased equipment as an expense in our consolidated statements of operations for periods ended on or prior to March 31, 2002. If the operating leases were recorded in our consolidated balance sheet as of March 31, 2002, total liabilities would have been increased by approximately \$594.2 million, and if the leased equipment under our operating leases (having a gross and net book value, at the date they were sold to the lessors, of \$609.9 million and \$594.2 million, respectively) had been recorded as assets on our consolidated balance sheet, total assets would have increased by approximately \$594.2 million (less depreciation). In addition, if the leased equipment had been recorded as assets on our balance sheet, we would have recorded additional depreciation expense of approximately \$32 million (using our current depreciation life policy) and interest expense of approximately \$55 million related to this equipment, offset by a reduction of operating lease expense of approximately \$55 million on our consolidated statement of operations for the year ended March 31,

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2002. Under our current policy, depreciation of owned contract compression equipment is generally calculated using the straight line method over a period of 15 years with residual value of 20%.

As of March 31, 2002, our debt to capitalization ratio, including the operating leases, was 57% and our book debt to capitalization ratio, excluding operating leases, was 24.5%.

Working capital for the year ended March 31, 2002 increased compared to March 31, 2001 due to non-cash adjustments within the purchase accounting liability balances and changes to the current deferred tax balances.

As of June 15, 2002, subject to covenant and other restrictions, we had unused credit availability of approximately \$165.5 million (approximately \$40.5 million under our asset-backed securitization facility and \$125 million under our revolving credit facility).

Capital expenditures, excluding acquisitions, are expected to be approximately \$140 to \$170 million for fiscal 2003, with approximately \$65 million for domestic expansion, approximately \$35 million for international expenditures, approximately \$30 million for maintenance capital expenditures and approximately \$10 million for general corporate expenditures.

As a result of the political and economic situation in Argentina, which began to deteriorate in January 2002, we continue to negotiate with our customers in Argentina as to contract amounts to be paid, subject to restrictions by the Argentine government. The majority of our existing contracts were written to ensure that we received United States dollars rather than Argentine pesos, which were designed to reduce our exposure to fluctuations in the Argentine peso's value. For the three and twelve month periods ended March 31, 2002, the impact from the Argentina situation reduced EBITDA, as adjusted, by approximately \$4.0 million. Also, we have recorded a non-cash adjustment to stockholders' equity at March 31, 2002 of approximately \$53 million pertaining to the currency translation of the Argentina balance sheet. Under GAAP this adjustment is not recorded as an expense in the current statement of operations. A significant portion of this adjustment is related to compression assets.

We believe that funds generated from our operations, together with our existing cash and the additional capacity available under our revolving credit facility and ABS operating lease facility, will be sufficient to finance our current operations, planned capital expenditures and internal growth for the remainder of fiscal year 2003. If we were to make significant additional acquisitions for cash, we may need to obtain additional debt, equity or operating lease financing.

### **Recent Accounting Pronouncements**

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS 144 supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principle Board Opinion No. 30, while retaining many of the requirements of these two statements. Under SFAS 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS 144 is effective for fiscal years beginning after December 15, 2001. SFAS 144 does not materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in additional future dispositions being reported as discontinued operations. The Company adopted SFAS 144 on April 1, 2002. Based on the Company's review of SFAS 144, no impairment existed as of March 31, 2002.

### **Seasonal Fluctuations**

Our results of operations have not historically reflected any material seasonal tendencies.

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## **RISK FACTORS**

*As described in "Part I. Disclosure Regarding Forward-Looking Statements," this report contains forward-looking statements regarding us, our business and our industry. The risk factors described below, among others, could cause our actual results to differ materially from the expectations reflected in the forward-looking statements. If any of the following risks actually occur, our business, financial condition and*

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*operating results could be materially adversely affected. Additional risks not presently known to us or which we currently consider immaterial may also adversely affect the Company and Universal.*

### **Risks Inherent in Our Industry**

*We depend on strong demand for natural gas, and a prolonged, substantial reduction in this demand could adversely affect the demand for our services and products.*

Gas contract compression operations are significantly dependent upon the demand for natural gas. Demand may be affected by, among other factors, natural gas prices, weather, demand for energy and availability of alternative energy sources. Any prolonged, substantial reduction in the demand for natural gas would, in all likelihood, depress the level of production, exploration and development activity and result in a decline in the demand for our contract compression services and products. Similarly, a decrease in capital spending by our customers could result in reduced demand for our fabrication or aftermarket services businesses. These events could materially adversely affect our business, results of operations and financial condition.

*Future terrorist attacks or responses thereto could adversely affect our company.*

The impact that future events, arising as a result of the terrorist attacks on the United States on September 11, 2001, or any terrorist attacks that may occur in the future, including military or police activities in the United States or foreign countries, future terrorist activities or threats of such activities, political unrest and instability, riots and protests, could have on the United States economy, the global economy, global financial markets and our business cannot currently be determined with any accuracy.

*We intend to continue to make substantial capital investments to implement our business strategy, which may reduce funds available for other operations.*

We anticipate that we will continue to make substantial capital investments to expand our contract compression fleet. For the year ended March 31, 2002, net of asset sales (other than under our operating leases), we invested approximately \$188 million in capital investments, excluding acquisitions. We expect to spend between \$140 and \$170 million on capital expenditures during fiscal year 2003, excluding acquisitions. Historically, we have financed these investments through internally generated funds, debt and equity offerings and our revolving credit facility and our operating lease facilities. These significant capital investments require cash that we could otherwise apply to other business needs. However, if we do not incur these expenditures while our competitors make substantial fleet investments, our market share may decline and our business may be adversely affected. In addition, if we are unable to generate sufficient cash internally or obtain alternative sources of capital, it could materially adversely affect our results of operations, financial condition and growth.

*We may not be successful in implementing our business strategy, which may adversely affect our ability to finance our future growth.*

Our ability to implement our business strategy successfully depends upon a number of factors including competition, availability of working capital and general economic conditions. Significant elements of our business strategy include growth of our market share and broader participation in the international market for contract compression services. We cannot assure you that we will succeed in

implementing our strategy or be able to obtain financing for this strategy on acceptable terms. The indenture governing Universal's 9<sup>7</sup>/<sub>8</sub>% senior discount notes and our revolving credit facility and operating lease facilities substantially limit our ability to incur additional debt to finance our growth strategy. See "Business Growth Strategy."

*Most of our domestic compressor leases have short initial terms, and we may not recoup the costs of our investment if we were unable to subsequently re-lease the compressors.*

In most cases, the initial terms of our contract compression leases with customers are short, with the most common initial term being six months and continuing on a month-to-month basis thereafter. The initial terms of our leases are generally too short to enable us to recoup the average cost of acquiring or fabricating compressors for contract compression customers, to the extent applicable. As a result, we assume substantial risk of not recovering our entire investment in the equipment we acquire or fabricate for contract compression customers. Although we historically have been successful in subsequently leasing our compressors, we may not be able to continue to do so and a substantial number of our contract compression customers could terminate their leases at approximately the same time. If such an event were to occur, even if we are successful in re-leasing our compressors as we have been in the past, we may not be able to obtain favorable contract compression rates. This would have an adverse effect on our revenues.

*We do not insure against all potential losses and could be seriously harmed by unexpected liabilities.*

Natural gas service operations are subject to inherent risks such as equipment defects, malfunction and failures, and natural disasters that can result in uncontrollable flows of gas or well fluids, fires and explosions. These risks could expose us to substantial liability for personal injury, death, property damage, pollution and other environmental damages. Although we have obtained insurance against many of these risks, there can be no assurance that our insurance will be adequate to cover our liabilities. Further, insurance covering the risks we face or in the amounts we desire may not be available in the future or, if available, the premiums may not be commercially justifiable. If we were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if we were to incur liability at a time when we are not able to obtain liability insurance, our business, results of operations and financial condition could be materially adversely affected.

*We are subject to substantial environmental regulation, and changes in these regulations could increase our costs or liabilities.*

We are subject to stringent and complex foreign, federal, state and local laws and regulatory standards, including laws and regulations regarding the discharge of materials into the environment, emission controls and other environmental protection and occupational health and safety concerns. See "Business Environmental and Other Regulations." Environmental laws and regulations may, in certain circumstances, impose strict liability for environmental contamination, rendering us liable for remediation costs, natural resource damages and other damages as a result of our conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior owners or operators or other third parties. In addition, where contamination may be present, it is not uncommon for neighboring land owners and other third parties to file claims for personal injury, property damage and recovery of response costs. Remediation costs and other damages arising as a result of environmental laws and regulations, and costs associated with new information, changes in existing environmental laws and regulations or the adoption of new environmental laws and regulations could be substantial and could have a material adverse effect on our business, financial condition or results of operations. Moreover, failure to comply with these environmental laws and regulations may result in the imposition of administrative, civil and criminal penalties.

We currently are engaged in remediation and monitoring activities with respect to some of our properties. The cost of these activities has not been, and we currently do not expect it to be, material to us. We believe that former owners and operators of some of these properties may be responsible under environmental laws and contractual agreements to pay for or perform some of these activities, or to indemnify us for some of our remediation costs. There can be no assurance that these other entities will fulfill their legal or contractual obligations, and their failure to do so could result in material costs to us. In addition, we have entered into a settlement agreement with the prior owner of Tidewater Compression whereby the prior owner's indemnification obligations related to environmental matters have been terminated. As such, any environmental obligations related to our acquisition of Tidewater Compression will not be indemnified by the prior owner.

We routinely deal with natural gas, oil and other petroleum products. As a result of our engineered products and overhaul and field operations, we generate, manage and dispose of or recycle hazardous wastes and substances such as solvents, thinner, waste paint, waste oil, washdown wastes and sandblast material. Although it is our policy to use generally accepted operating and disposal practices in accordance with applicable environmental laws and regulations, hydrocarbons or other hazardous substances or wastes may have been disposed or released on, under or from properties owned, leased or operated by us or on or under other locations where such substances or wastes have been taken for disposal. These properties may be subject to investigatory, remediation and monitoring requirements under foreign, federal, state and local environmental laws and regulations.

We believe that our operations are in substantial compliance with applicable environmental laws and regulations. Nevertheless, the modification or interpretation of existing environmental laws or regulations, the more vigorous enforcement of existing environmental laws or regulations, or the adoption of new environmental laws or regulations may also negatively impact oil and natural gas exploration and production companies, which in turn could have a material adverse effect on us and other similarly situated service companies.

*We face significant competition that may cause us to lose market share and harm our financial performance.*

The contract compression, fabrication, and aftermarket services businesses are highly competitive. Many of our competitors also offer a wide range of compressors for sale or lease, and there are low barriers to entry for individual projects. In addition, we compete with several large national and multinational companies that provide contract compression services to third parties, most of which have greater financial and other resources than we do. If our competitors substantially increase the resources they devote to the development and marketing of competitive products and services, we may not be able to compete effectively. In addition, in our Weatherford Global acquisition, we acquired most, but not all, of the compression operations of Weatherford. Weatherford retained certain foreign compression equipment and is not contractually restricted from competing with us.

## Risks Specific to Our Company

*We may not be able to successfully integrate the businesses that we acquire, which could cause us not to realize all of the expected benefits of our acquisitions.*

We have completed seven acquisitions since our initial public offering in May 2000. Integrating acquired businesses into ours is an ongoing process involving a number of potential challenges and costs, including combining, reducing and relocating workforces, facilities and offices and combining systems, processes, administrative functions and corporate cultures. The integration process could cause operational difficulties, divert the attention of our management away from managing our business to the assimilation of the operations and personnel and have adverse effects on our operating results. Furthermore, if our integration of our acquisitions is not successful, we may lose personnel, not be able

to retain our customer base to the extent expected and experience increased costs and reduced revenues.

*We are highly leveraged, a significant portion of our cash flow must be used to service our obligations and in addition we are vulnerable to interest rate increases.*

As of June 15, 2002, we had approximately \$938 million in outstanding obligations, including capital leases and operating lease facilities. Of this amount, approximately \$99 million bears interest at floating rates. As of that date, we also had unused availability of approximately \$165.5 million (\$125 million under our revolving credit facility and approximately \$40.5 million under our ABS operating lease facility). Both the interest payments under our revolving credit facility and a portion of the lease payments under our operating lease facilities bear interest at a floating rate (based on a base rate or LIBOR, at our option, in the case of the revolving credit facility, and based on LIBOR in the case of the operating lease facilities), plus a variable amount depending on our operating results. Changes in economic conditions could result in higher interest and lease payment rates, thereby increasing our interest expense and lease payments and reducing our funds available for capital investment, operations or other purposes. If, during the term of the operating lease facilities, the realizable value of the equipment under the facilities is insufficient to satisfy the obligations under the facilities, we may be required to record a loss due to our residual value guarantees and may have insufficient funds to provide for repayment of our obligations. Our significant leverage increases our vulnerability to general adverse economic and industry conditions. In addition, a substantial portion of our cash flow must be used to service our debt and lease obligations, which may affect our ability to make acquisitions or capital expenditures.

*Our financing arrangements contain restrictions that may limit our ability to finance future operations or engage in attractive business transactions.*

A significant portion of our gas compressors are pledged as collateral under operating lease facilities, each of which contains covenants that restrict our operations. The indenture governing Universal's 9<sup>7</sup>/<sub>8</sub>% senior discount notes also contains restrictive covenants. These covenants place limitations on, among other things, our ability to enter into acquisitions, asset sales and operating lease transactions, and to incur additional indebtedness and create liens. These covenants could hinder our flexibility and restrict our ability to take advantage of market opportunities or respond to changing market conditions.

*Our international operations subject us to risks that are difficult to predict.*

For the year ended March 31, 2002, we derived approximately 23% of our revenues from international operations. We intend to continue to expand our business in Latin America and Asia Pacific.

Our international operations are affected by global political and economic conditions, and we may encounter difficulties managing our international operations. Changes in political or economic conditions and in legal or regulatory requirements in any of the countries in which we operate could result in exchange rate movement, new currency or exchange controls, expropriation or other trade restrictions, including tariffs, being imposed on our operations. Many of these factors are outside of our control. In addition, the financial condition of foreign customers may not be as strong as that of our current domestic customers. As a result of the political and economic situation in Argentina, we are involved in negotiations with our customers in Argentina as to the currency in which contract amounts are to be paid, as mandated by the Argentine government. The impact from the Argentina political and economic situation reduced EBITDA, as adjusted, by approximately \$4.0 million in the three and twelve month periods ended March 31, 2002.

*Weatherford's voting power may give it the ability to control the outcome of matters submitted to a vote of our stockholders, and thus limit the rights of our other stockholders to influence our affairs.*

Currently, an affiliate of Weatherford beneficially owns approximately 45% of our outstanding common stock. In addition to its voting power, Weatherford and its affiliates are entitled to designate three persons to serve on our board of directors for so long as they own at least 20% of our outstanding common stock. If Weatherford's ownership falls below 20%, Weatherford may designate only two directors. If Weatherford's ownership falls below 10%, it will no longer have the right to designate directors to our board. Currently, Bernard J. Duroc-Danner, Lisa W. Rodriguez and Uriel E. Dutton are serving as Weatherford's designees to our board.

This significant stock ownership and board representation gives Weatherford the ability to exercise substantial influence over our ownership, policies, management and affairs and significant control over actions requiring approval of our stockholders. Weatherford's interests could conflict with our other stockholders. See "Item 13. Certain Relationships and Related Transactions" for further information regarding our relationship with Weatherford.

*The market price of our common stock is volatile.*

Historically, the market price of common stock of companies engaged in the natural gas industry has been highly volatile. Similarly, the market price of our common stock has varied significantly since our initial public offering in May 2000. In particular, changes in natural gas prices or in the demand for natural gas could affect the price of our common stock.

*We are dependent on particular suppliers and are vulnerable to product shortages and price increases.*

As a consequence of having a highly standardized contract compression fleet, some of the components used in our products are obtained from a single source or a limited group of suppliers. Our reliance on these suppliers involves several risks, including price increases, inferior component quality and a potential inability to obtain an adequate supply of required components in a timely manner. The partial or complete loss of certain of these sources could have at least a temporary material adverse effect on our results of operations and could damage our customer relationships. Further, a significant increase in the price of one or more of these components could have a material adverse effect on our results of operations.

*Our operations may be adversely affected by significant fluctuations in the value of foreign currencies relative to the United States dollar.*

Our revenues from international operations and, as a result, our exposure to currency exchange rate fluctuations, have increased as a result of our acquisitions. Although we attempt to match costs and revenues in local currencies, we anticipate that as we continue our expansion on a global basis, there may be many instances in which costs and revenues will not be matched with respect to currency denomination. As a result, we expect that increasing portions of our revenues, costs, assets and liabilities will be subject to fluctuations in foreign currency valuations. Although we may use foreign currency forward contracts or other currency hedging mechanisms from time to time to minimize our exposure to currency exchange rate fluctuations, we may not elect or have the ability to implement hedges or, if we do implement them, that they will achieve the desired effect. We may experience economic loss and a negative impact on earnings or net assets solely as a result of foreign currency exchange rate fluctuations. Further, the markets in which we operate could restrict the removal or conversion of the local or foreign currency, resulting in our inability to hedge against these risks.

*Our ability to manage our business effectively will be weakened if we lose key personnel.*

We depend on the continuing efforts of our executive officers and senior management. The departure of any of our key personnel could have a material adverse effect on our business, operating results and financial condition. We do not maintain key man life insurance coverage with respect to our executive officers or key management personnel. We are not aware of the upcoming retirement of any of our executive officers or senior management personnel. In addition, we believe that our success depends on our ability to attract and retain additional qualified employees. If we fail to recruit other skilled personnel, we could be unable to compete effectively.

*We are a holding company and rely on our subsidiaries for operating income.*

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We are a holding company and, as such, derive all of our operating income from our operating subsidiary, Universal, and its subsidiaries. We do not have any significant assets other than the stock of our operating subsidiary. Consequently, we are dependent on the earnings and cash flow of our subsidiaries to meet our obligations. Our subsidiaries are separate legal entities that are not legally obligated to make funds available to us, and in some cases may be contractually restricted from doing so. We cannot assure you that our subsidiaries will be able to, or be permitted to, pay to us amounts necessary to meet our obligations.

*A third party could be prevented from acquiring control of us because of the anti-takeover provisions in our charter and bylaws.*

There are provisions in our restated certificate of incorporation and bylaws that may make it more difficult for a third party to acquire control of us, even if a change in control would result in the purchase of your shares at a premium to the market price or would otherwise be beneficial to you. For example, our restated certificate of incorporation authorizes our board of directors to issue preferred stock without stockholder approval. If our board of directors elects to issue preferred stock, it could be more difficult for a third party to acquire us. In addition, provisions of our restated certificate of incorporation, such as a staggered board of directors and limitations on the removal of directors, no stockholder action by written consent and limitations on stockholder proposals at meetings of stockholders, could make it more difficult for a third party to acquire control of us. Delaware corporation law may also discourage takeover attempts that have not been approved by our board of directors.

*We do not expect to pay dividends.*

We have never paid cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. In addition, our ability to pay dividends is restricted by our revolving credit facility, our operating lease facilities, the indenture governing Universal's 9<sup>7</sup>/<sub>8</sub>% senior discount notes and other financing arrangements.

*You should not place undue reliance on forward-looking statements, as our actual results may differ materially from those anticipated in our forward-looking statements.*

This report contains forward-looking statements about our operations, economic performance and financial condition. These statements are based on a number of assumptions and estimates, which are inherently subject to significant uncertainties and contingencies, many of which are beyond our control, and reflect future business decisions, which are subject to change. Some of these assumptions inevitably will not materialize, and unanticipated events will occur which will affect our results of operations. See "Part I. Disclosure Regarding Forward-Looking Statements".

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **UNIVERSAL COMPRESSION, INC.**

*The following discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements, and the notes thereto, and the other financial information appearing elsewhere in this report. The following discussion includes forward-looking statements that involve certain risks and uncertainties. See "Part I. Disclosure Regarding Forward-Looking Statements" and "Risk Factors."*

#### **Financial Results of Operations.**

*Fiscal Year Ended March 31, 2002 Compared to Fiscal Year Ended March 31, 2001*

The following table summarizes revenues, gross margins, expenses and the respective percentages for each of Universal's business segments:

**Year Ended March 31,**

|  | 2001         | 2002          |
|--|--------------|---------------|
| (dollars in thousands)                       |              |               |
| <b>Revenues:</b>                             |              |               |
| Domestic contract compression                | \$ 126,686   | \$ 267,550    |
| % of revenue                                 | 54.5%        | 39.3%         |
| International contract compression           | \$ 22,549    | \$ 60,185     |
| % of revenue                                 | 9.7%         | 8.9%          |
| Fabrication                                  | \$ 61,779    | \$ 211,265    |
| % of revenue                                 | 26.6%        | 31.1%         |
| Aftermarket services                         | \$ 21,452    | \$ 140,989    |
| % of revenue                                 | 9.2%         | 20.7%         |
| <b>Gross Margin:</b>                         |              |               |
| Domestic contract compression                | \$ 80,465    | \$ 169,892    |
| International contract compression           | 16,425       | 43,411        |
| Fabrication                                  | 9,041        | 24,347        |
| Aftermarket services                         | 3,476        | 30,696        |
| <b>Expenses:</b>                             |              |               |
| Depreciation and amortization                | (33,485)     | (48,600)      |
| Selling, general and administrative          | (21,092)     | (60,890)      |
| Operating lease expense                      | (14,443)     | (55,401)      |
| Interest expense, net                        | (22,622)     | (23,017)      |
| Income taxes                                 | (3,871)      | (30,931)      |
| <b>Net income before extraordinary items</b> | <b>5,490</b> | <b>49,408</b> |

*Revenues.* Universal's total revenue for the fiscal year ended March 31, 2002 increased \$447.5 million, or 192.5%, to \$680 million, compared to \$232.5 million for the fiscal year ended March 31, 2001. Contract compression revenue increased by \$178.5 million, or 119.6%, to \$327.7 million during the fiscal year ended March 31, 2002 from \$149.2 million during the fiscal year ended March 31, 2001. Domestic contract compression revenues increased by \$140.9 million, or 111.2%, to \$267.6 million during the fiscal year ended March 31, 2002 from \$126.7 million during the fiscal year ended March 31, 2001. International contract compression revenues increased by \$37.7 million, or 167.5%, to \$60.2 million during the fiscal year ended March 31, 2002 from \$22.5 million during the fiscal year ended March 31, 2001. The increase in domestic contract

compression revenue primarily resulted from expansion of the contract compression fleet through the impact of a full year of operations from the Weatherford Global acquisition, the KCI acquisition and internal growth. The increase in international contract compression revenue resulted from expansion of Universal's international contract compression fleet primarily through the CSII acquisition and the impact of a full year of operations from the Weatherford Global acquisition.

Domestic average rented horsepower for the fiscal year ended March 31, 2002 increased by 107% to approximately 1,603,000 horsepower from approximately 776,000 horsepower for the fiscal year ended March 31, 2001 primarily due to the KCI acquisition and a full year of operations from the Weatherford Global and GCSI acquisitions. In addition, international average rented horsepower for the fiscal year ended March 31, 2002 increased by 240% to approximately 303,000 horsepower from approximately 89,000 horsepower for the fiscal year ended March 31, 2001, primarily through acquisitions and expansion of the international contract compression fleet and high utilization rates. Combined average horsepower utilization rate for the fiscal year ended March 31, 2002 was approximately 88.8%, up from 87.6% in the fiscal year ended March 31, 2001. As of March 31, 2002, Universal had approximately 2.2 million available horsepower with an average horsepower utilization rate for the quarter then ended of 86.8% and for the same period one year earlier of approximately 88.8%.

Revenue from fabrication increased to \$211.3 million from \$61.8 million, an increase of 242%. The increase in fabrication revenue, consisting mostly of equipment fabrication, was due primarily to the acquisition of KCI and the impact of a full year of operations from the Weatherford Global acquisition combined with internal growth. Revenues from fabrication vary quarter to quarter due to the recognition of revenue only at the time of shipment. Universal's backlog of fabrication projects at the fiscal year ended March 31, 2002 was approximately \$80.0 million, compared with a backlog of \$34.2 million at March 31, 2001. From December 31, 2000 to March 31, 2001, backlog decreased \$21.0 million.

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Revenues from aftermarket services increased to \$141.0 million during the fiscal year ended March 31, 2002 from \$21.5 million during the fiscal year ended March 31, 2001, an increase of 556%. The increase was due primarily to the impact of full year of operations from the Weatherford Global acquisition and resulted in the aftermarket services segment becoming a more significant part of Universal's business. In addition, the LCM and TCSI acquisitions increased revenues approximately \$23 million in the aggregate.

*Gross Margin.* Universal's gross margin for the fiscal year ended March 31, 2002 increased \$158.9 million, or 145.3%, to \$268.3 million from gross margin of \$109.4 million for the fiscal year ended March 31, 2001. Contract compression gross margin for the fiscal year ended March 31, 2002 increased \$116.4 million, or 120%, to \$213.3 million compared to gross margin of \$96.9 million for the fiscal year ended March 31, 2001. Contract compression gross margin increased primarily as the result of Universal's contract compression revenue growth and operating cost improvements realized by the integration of the contract compression businesses. Fabrication gross margin for the fiscal year ended March 31, 2002 increased \$15.3 million, or 169%, to \$24.3 million compared to a gross margin of \$9.0 million for the fiscal year ended March 31, 2001. Fabrication gross margins increased primarily due to the impact of a full year of operations from Weatherford Global, a partial year of operations from KCI and synergies from the integration of these operations. Aftermarket services gross margin for the fiscal year ended March 31, 2002 increased \$27.2 million or 783%, to \$30.7 million compared to a gross margin of \$3.5 million for the fiscal year ended March 31, 2001. Aftermarket services gross margin increased primarily due to the impact of a full year of operations from Weatherford Global and the acquisitions of TCSI and LCM.

*Selling, General and Administrative Expenses.* Universal's selling, general and administrative expenses increased by \$39.8 million to \$60.9 million for the fiscal year ended March 31, 2002 compared

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to \$21.1 million for the fiscal year ended March 31, 2001. Selling, general and administrative expenses represented 9.0% of revenue for the fiscal year ended March 31, 2002 compared to 9.1% of revenue for the fiscal year ended March 31, 2001.

EBITDA, as adjusted, for the fiscal year ended March 31, 2002 increased 134.3% to \$207.6 million from \$88.6 million for the fiscal year ended March 31, 2001, primarily due to increases in total fleet horsepower and utilization of the compression contract compression fleet, gross margin contribution from fabrication and sales, and operating cost improvements realized by contract compression operations.

*Non-recurring Charges.* During the fiscal year ended March 31, 2001, Universal incurred non-recurring charges of \$8.7 million related to the early termination of a management agreement and a consulting agreement and other related fees in connection with Universal Compression Holdings' initial public offering and concurrent financing transactions as well as costs related to facilities and workforce reductions associated with the Weatherford Global acquisition.

*Depreciation and Amortization.* Depreciation and amortization increased by \$15.1 million to \$48.6 million during the fiscal year ended March 31, 2002, compared to \$33.5 million during the fiscal year ended March 31, 2001. The increase was primarily due to capital additions of \$188 million, which primarily resulted from expansion of the contract compression fleet, through our fabrication operations and the purchase of approximately \$60 million and \$13 million of contract compression equipment from the acquisitions of KCI and CSII, respectively. The increase in depreciation and amortization was partially offset by the net sales and leasebacks of compressor equipment, with a book value of approximately \$142.1 million, between April and October 2001 under our operating lease facilities.

*Operating Lease.* Operating lease expense increased to \$55.4 million during the fiscal year ended March 31, 2002 resulting from the increase in compression equipment leased under the operating lease facilities. The outstanding balance under the operating lease facilities at March 31, 2002 was \$708.5 million.

*Interest Expense, Net.* Interest expense, net, remained fairly constant at \$23.0 million for the fiscal year ended March 31, 2002 from \$22.6 million for the fiscal year ended March 31, 2001, primarily as a result of the repayment of the \$1.2 million revenue bonds, offset partially by increased accretion of our 9<sup>7</sup>/<sub>8</sub>% senior discount notes.

*Extraordinary Loss.* During the fiscal year ended March 31, 2001, Universal incurred extraordinary losses of \$10.6 million (\$6.6 million net of income tax) related to debt restructurings that occurred concurrently with Universal Compression Holdings' initial public offering and the Weatherford Global acquisition.

*Net Income (Loss).* Universal had a net income of \$49.4 million for the fiscal year ended March 31, 2002 compared to a net loss of \$1.1 million for the fiscal year ended March 31, 2001, primarily as a result of the \$158.9 million increase in gross margins and interest expense, net, remaining constant at approximately \$23.0 million, offset partially by increased depreciation and amortization of \$48.6 million related to the continued expansion of assets, increased leasing expense of \$55.4 million resulting from the increase in compression equipment leased under the

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operating lease facilities, an increase in the income tax provision to \$30.9 million and a decrease in net income of \$2.4 million related to the Argentina political and economic situation.

### *Fiscal Year Ended March 31, 2001 Compared to Fiscal Year Ended March 31, 2000*

**Revenues.** Universal's total revenue for the fiscal year ended March 31, 2001 increased \$96.2 million, or 70.8%, to \$232.5 million, compared to \$136.3 million for the fiscal year ended March 31, 2000. Contract compression revenues increased by \$50.9 million, or 51.8%, to \$149.2 million

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during the fiscal year ended March 31, 2001 from \$98.3 million during the fiscal year ended March 31, 2000. Domestic contract compression revenues increased by \$43.1 million, or 51.6%, to \$126.7 million during the fiscal year ended March 31, 2001 from \$83.6 million during the fiscal year ended March 31, 2000. International contract compression revenues increased by \$7.8 million, or 53.1%, to \$22.5 million during the fiscal year ended March 31, 2001 from \$14.7 million during the fiscal year ended March 31, 2000. The increase in domestic contract compression revenue primarily resulted from expansion of the contract compression fleet through the acquisition of GCSI, Weatherford Global and core growth. The increase in international contract compression revenue resulted from expansion of the international contract compression fleet primarily through the addition of horsepower from Universal's acquisitions, continued high utilization rates and the impact of our Weatherford Global acquisition. During the quarter ended December 31, 2000, Universal we started their first contract compression project in Mexico consisting of 10,000 horsepower. This project contributed approximately \$4.7 million in one-time turnkey installation revenue.

Domestic average rented horsepower for the fiscal year ended March 31, 2001 increased by 61.0% to approximately 776,000 horsepower from approximately 482,000 horsepower for the fiscal year ended March 31, 2000. In addition, international average rented horsepower for the fiscal year ended March 31, 2001 increased by 81.6% to approximately 89,000 horsepower from approximately 49,000 horsepower for the fiscal year ended March 31, 2000, primarily through expansion of the international contract compression fleet, continued high utilization rates and additional service in South America. Average horsepower utilization rate for the fiscal year ended March 31, 2001 was approximately 87.6%, up from 80.7% in the fiscal year ended 2000. At the end of the quarter, Universal had approximately 1.9 million available horsepower with an additional 69,000 horsepower operated and maintained for customers. Average horsepower utilization rate for the quarter ended March 31, 2001 was 88.8% and at March 31, 2001 was approximately 88.4%. These horsepower and utilization amounts include GCSI for the full fourth quarter and Weatherford Global for the 50 days from the date of the merger.

Revenue from fabrication increased to \$61.8 million from \$25.3 million, an increase of 144.3%. The increase in fabrication revenue, consisting mostly of equipment fabrication, for the last half of the fiscal year was due primarily to the acquisitions of GCSI and Weatherford Global. Revenues from fabrication vary quarter to quarter due to the recognition of revenue only at the time of shipment. Universal's backlog of fabrication projects at the end of the fiscal year ended March 31, 2001 was approximately \$34.2 million, compared with a backlog of \$11.1 million at the same time a year earlier. From December 31, 2000 to March 31, 2001, backlog increased \$3.7 million.

Revenues from aftermarket services increased to \$21.5 million during the fiscal year ended March 31, 2001 from \$12.7 million during the fiscal year ended March 31, 2000, an increase of 69.3%. The increase for the last half of the fiscal year was due primarily to the acquisitions of GCSI and Weatherford Global.

**Gross Margin.** Universal's gross margin for the fiscal year ended March 31, 2001 increased \$40.4 million, or 58.8%, to \$109.4 million from gross margin of \$69.0 million for the fiscal year ended March 31, 2000. Contract compression gross margin for the fiscal year ended March 31, 2001 increased \$34.0 million, or 54.1%, to \$96.9 million compared to gross margin of \$62.9 million for the fiscal year ended March 31, 2000. Contract compression gross margin increased primarily as the result of Universal's contract compression revenue growth discussed above and operating cost improvements realized by contract compression operations. Fabrication gross margin for the fiscal year ended March 31, 2001 increased \$5.6 million, or 164.7%, to \$9.0 million compared to a gross margin of \$3.4 million for the fiscal year ended March 31, 2000. Fabrication gross margin increased primarily due to strong customer demand, cost reductions and their resulting gross margin effects.

Aftermarket services gross margin for the fiscal year ended March 31, 2001 increased \$0.8 million or 29.6%, to \$3.5 million compared to a gross margin of \$2.7 million for the fiscal year ended

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March 31, 2000. Aftermarket services revenue increased primarily due to the acquisition of Weatherford Global.

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*Selling, General and Administrative Expenses.* Universal's selling, general and administrative expenses for the fiscal year ended March 31, 2001 increased \$4.3 million compared to the fiscal year ended March 31, 2000. Selling, general and administrative expenses represented 9.1% of revenue for the fiscal year ended March 31, 2001 compared to 12.3% of revenue for the fiscal year ended March 31, 2000. The percentage decrease was primarily due to the approximately \$4.7 million in one-time turnkey installation revenues associated with a large contract compression project in Mexico and the elimination of management fees in connection with Holdings' our initial public offering in May 2000, in addition to synergies achieved in the acquisitions of GCSI and Weatherford Global. These reductions have been offset partially by increases in certain expenses related to operating as a publicly traded company.

EBITDA, as adjusted, for the fiscal year ended March 31, 2001 increased 59.4% to \$88.6 million from \$55.6 million for the fiscal year ended March 31, 2001, primarily due to increases in horsepower and utilization of the compression contract compression fleet, gross margin contribution from fabrication and sales, operating cost improvements realized by contract compression operations, and a decreased percentage of selling, general and administrative expenses, as discussed above.

*Non-recurring Charges.* During the fiscal year ended March 31, 2001, Universal incurred non-recurring charges of \$8.7 million related to the early termination of a management agreement and a consulting agreement and other related fees in connection with Holdings' initial public offering and concurrent financing transactions as well as costs related to facilities and headcount reduction associated with the Weatherford Global acquisition.

*Depreciation and Amortization.* Depreciation and amortization increased by \$7.5 million to \$33.5 million during the fiscal year ended March 31, 2001, compared to \$26 million during the fiscal year ended March 31, 2001. The increase resulted primarily from expansion of the contract compression fleet offset partially by the compressor equipment sold and leased back under the previous operating lease facility.

*Operating Lease.* Universal incurred leasing expense of \$14.4 million during the fiscal year ended March 31, 2001 resulting from the operating lease facilities. The outstanding balance under the operating lease facilities at March 31, 2001 was \$527.5 million, consisting of \$427.0 million under the new operating lease facility and \$100.5 million under the asset-backed securitization operating lease facility.

*Interest Expense, Net.* Interest expense, net decreased \$7.3 million to \$22.6 million for the fiscal year ended March 31, 2001 from \$30.9 million for the fiscal year ended March 31, 2000, primarily as a result of the reduction of debt resulting from UCH's initial public offering and financing restructurings. The decrease in interest expense was offset partially by increased accretion of our 9<sup>7</sup>/<sub>8</sub>% senior discount notes and the assumption and refinancing of debt related to the GCSI acquisition.

*Extraordinary Loss.* During the fiscal year ended March 31, 2001, we incurred extraordinary losses of \$10.6 million (\$6.6 million net of income tax) related to debt restructurings that occurred concurrently with our initial public offering and the Weatherford Global acquisition.

*Net Loss.* Universal had a net loss of \$1.1 million for the fiscal year ended March 31, 2001 compared to a net loss of \$3.9 million for the fiscal year ended March 31, 2000, primarily as a result of an increase in gross margins and interest expense decreasing from \$30.9 million to \$22.6 million, offset partially by increased depreciation and amortization related to the continued expansion of Universal's assets, leasing expense of \$14.4 million resulting from the operating lease facilities, non-recurring

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charges, an increase of the income tax provision to \$3.9 million from an income tax benefit of \$0.7 million, and an extraordinary loss of \$6.6 million.

### **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to some market risk due to the floating or variable interest rates under our financing arrangements. A portion of the interest and lease payments under our financing arrangements are based on a floating rate (a base rate or LIBOR, at our option, in the case of our revolving credit facility, and LIBOR in the case of our operating lease facilities) plus a variable amount based on our operating results. The one-month LIBOR rate at March 31, 2002 was 1.875%. A 1.0% increase in interest rates would result in a \$1.0 million annual increase in interest and operating lease expense. As of March 31, 2002, approximately \$99 million of our indebtedness and other obligations outstanding bear interest at floating rates.

In order to minimize any significant foreign currency credit risk, we generally contractually require that payment by our customers be made in United States dollars. If payment is not made in United States dollars, we generally utilize the exchange rate into United States dollars on the payment date or balance payments in local currency against local expenses. As a result of the political and economic situation in Argentina, we

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are involved in negotiations with our customers in Argentina as to the currency in which contract amounts are to be paid, as mandated by the Argentine government. The impact from the Argentina political and economic situation reduced EBITDA, as adjusted, by approximately \$4.0 million in the three and twelve month periods ended March 31, 2002.

### **ITEM 8. *Financial Statements and Supplementary Data***

The consolidated statements of the Company and Universal included in this Report beginning on page F-1 are incorporated herein by reference.

### **ITEM 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

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## **PART III**

### **ITEM 10. *Directors and Executive Officers of the Company***

The information to be included in the Company's definitive proxy statement for its 2002 Annual Meeting of Stockholders under the captions "Election of Directors" is incorporated by reference herein.

### **ITEM 11. *Executive Compensation***

The information included or to be included under the captions "Executive Compensation" in the Company's definitive proxy statement for its 2002 Annual Meeting of Stockholders is incorporated by reference herein.

### **ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information included or to be included under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Company's definitive proxy statement for its 2002 Annual Meeting of Stockholders is incorporated by reference herein.

### **ITEM 13. *Certain Relationships and Related Transactions***

The information included or to be included under the caption "Certain Relationships and Related Transactions" in the Company's definitive proxy statement for its 2002 Annual Meeting of Stockholders is incorporated by reference herein.

## **PART IV**

### **ITEM 14. *Exhibits, Financial Statement Schedules and Reports On Form 8-K***

(a) The following documents are filed as part of this Report:

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1. Financial Statements The financial statements of the Company and Universal listed in the accompanying Index to Consolidated Financial Statements on page F-1 are filed as part of this annual report and such Index to Consolidated Financial Statements is incorporated herein by reference.

2. Financial Statement Schedules Schedule II Valuation and Qualifying Accounts is included on Page E-1. All other schedules have been omitted as the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the consolidated financial statements or notes thereto.

### (b) Reports on Form 8-K

Four reports were filed on Form 8-K during the fourth quarter of fiscal 2002.

1. The Company and Universal filed a Current Report on Form 8-K on January 8, 2002 to report under Item 5 the effectiveness of the Registration Statement on Form S-4 (File No. 333-74342) with respect to the registration of \$100 million aggregate principal amount of the unaffiliated issuers' new additional 8<sup>7</sup>/<sub>8</sub>% senior secured notes due 2008 and our related lease and guarantee obligations.

2. The Company and Universal filed a Current Report on Form 8-K on January 24, 2002 to report under Item 5 the announcement of the Company's scheduled third fiscal quarter earnings release and conference call and the resignation of two members of the Company's board of

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directors, John K. Castle and C. Kent May, and to file under Item 7 a related press release and to report under Item 9 the timing of the release of financial results and the conference call broadcast to investors over the Internet with respect to the results of the third fiscal quarter.

3. The Company and Universal filed a Current Report on Form 8-K on February 4, 2002 to report under Item 5 the issuance of a press release announcing earnings for the Company's third fiscal quarter and other corporate matters regarding the new composition of the Company's audit and compensation committees, and to file under Item 7 the related press release and to report under Item 9 certain matters discussed on a conference call broadcast to investors over the Internet with respect to the results of the third fiscal quarter and other corporate matters.

4. The Company and Universal filed a Current Report on Form 8-K on February 20, 2002 to report under Item 5 the extension of the exchange offer of the unaffiliated issuers' new additional 8<sup>7</sup>/<sub>8</sub>% Senior Secured Notes due 2008 and our related lease and guarantee obligations.

### (c) Exhibits

| Exhibit No. | Description  |
|-------------|--|
| 2.1         | Agreement and Plan of Merger dated as of October 23, 2000, by and among Universal Compression Holdings, Inc., Universal Compression, Inc., Weatherford International, Inc., WEUS Holding, Inc. and Enterra Compression Company (incorporated by reference to Exhibit 10.1 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 28, 2000). |
| 3.1         | Restated Certificate of Incorporation of Universal Compression Holdings, Inc. (incorporated by reference to Exhibit 3.1 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).  |
| 3.2         | Restated Bylaws of Universal Compression Holdings, Inc. (incorporated by reference to Exhibit 3.2 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).  |
| 4.1         | Indenture, dated as of February 20, 1998, between Universal Compression, Inc. and the United States Trust Company of New York, as Trustee, with respect to the 9 <sup>7</sup> / <sub>8</sub> % Senior Discount Notes (incorporated by reference to Exhibit 4.3 to Universal Compression, Inc.'s Registration Statement on Form S-4 dated March 19, 1998 (File No. 333-48279)).   |

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| Exhibit No. | Description  |
|-------------|--|
| 4.2         | First Supplemental Indenture, dated May 9, 2000, between Universal Compression, Inc. and United States Trust Company of New York, as Trustee, with respect to the 9 <sup>7</sup> / <sub>8</sub> % Senior Discount Notes (incorporated by reference to Exhibit 4.7 of Amendment No. 2 dated May 22, 2000, to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).   |
| 4.3         | Second Supplemental Indenture, dated as of May 30, 2000, by and among Universal Compression, Inc., Universal Compression Holdings, Inc. and United States Trust Company of New York, as Trustee, with respect to the 9 <sup>7</sup> / <sub>8</sub> % Senior Discount Notes (incorporated by reference to Exhibit 4.3 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).  |
| 4.4         | Third Supplemental Indenture, dated as of October 15, 2000, by and among Universal Compression, Inc., Gas Compression Finance Corporation, G.C.S. Distributing L.L.C., Gas Compression Realty L.L.C. and United States Trust Company of New York, as Trustee, with respect to the 9 <sup>7</sup> / <sub>8</sub> % Senior Discount Notes (incorporated by reference to Exhibit 4.4 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000). |
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| 4.5         | Specimen of Universal Compression, Inc.'s 9 <sup>7</sup> / <sub>8</sub> % Senior Discount Notes due 2008 (incorporated by reference to Exhibit 4.2 to Universal Compression, Inc.'s Registration Statement on Form S-4 dated March 19, 1998 (File No. 333-48279)).   |
| 4.6         | Specimen common stock certificate of Universal Compression Holdings, Inc. (incorporated by reference to Exhibit 4.1 to Amendment No. 2 dated May 22, 2000, to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).   |
| 4.7         | Indenture, dated as of February 9, 2001, among BRL Universal Equipment 2001 A, L.P. and BRL Universal Equipment Corp., as Issuers, and The Bank of New York, as Indenture Trustee, with respect to the 8 <sup>7</sup> / <sub>8</sub> % Senior Secured Notes due 2008 (incorporated by reference to Exhibit 10.4 of Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2000).  |
| 4.8         | First Supplemental Indenture, dated as of September 11, 2001, among BRL Universal Equipment 2001 A, L.P. and BRL Universal Equipment Corp., as Issuers, and The Bank of New York, as Trustee, with respect to the 8 <sup>7</sup> / <sub>8</sub> % Senior Secured Notes due 2008 (incorporated by reference to Exhibit 4.1 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 24, 2001).                               |
| 4.9         | Indenture, dated as of February 9, 2001, between BRL Universal Compression Funding I, L.P., issuer, and Wells Fargo Bank Minnesota, National Association, Indenture Trustee, with respect to the ABS operating lease facility (incorporated by reference to Exhibit 4.10 to Registration Statement on Form S-4 dated March 20, 2001 (File No. 333-57302)).   |
| 4.10        | Series 2001-1 Supplement, dated as of February 9, 2001, to Indenture dated as of February 9, 2001, between BRL Universal Compression Funding I, L.P., issuer, and Wells Fargo Bank Minnesota, National Association, Indenture Trustee, with respect to the ABS operating lease facility (incorporated by reference to Exhibit 4.11 to Registration Statement on Form S-4 dated March 20, 2001 (File No. 333-57302)).   |
| 4.11        | Amendment No. 1 to Indenture, dated as of October 1, 2001, between BRL Universal Compression Funding I, L.P., as Issuer, and Wells Fargo Bank Minnesota, N.A., as Indenture Trustee (incorporated by reference to Exhibit 4.2 of Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2001).  |
| 4.12*       | Amendment No. 2 to Indenture, dated as of February 8, 2002, between BRL Universal Compression Funding I, L.P., as Issuer, and Wells Fargo Bank Minnesota, N.A., as Indenture Trustee.  |
| 4.13*       | Amendment No. 3 to Indenture, dated as of March 29, 2002, between BRL Universal Compression Funding I, L.P., as Issuer, and Wells Fargo Bank Minnesota, N.A., as Indenture Trustee.  |
| 4.14*       | Amendment No. 4 to Indenture, dated as of May 31, 2002, between BRL Universal Compression Funding I, L.P., as Issuer, and Wells Fargo Bank Minnesota, N.A., as Indenture Trustee.  |
| 9.1         | Termination of Voting Trust Agreement, dated October 1, 2001, among Universal Compression Holdings, Inc., John K. Castle, as voting trustee, and the stockholders party thereto (incorporated by reference to Exhibit 9.1 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 7, 2001).   |

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- 9.2 Termination of Voting Trust Agreement, dated November 12, 2001, among Universal Compression Holdings, Inc., John K. Castle, as voting trustee, and the stockholders party thereto (incorporated by reference to Exhibit 9.2 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 7, 2001).
- 10.1 Equipment Lease Agreement with respect to the senior secured notes operating lease facility, dated as of February 9, 2001, between BRL Universal Equipment 2001 A, L.P., as Lessor, and Universal Compression, Inc., as Lessee (incorporated by reference to Exhibit 10.2 to Registration Statement on Form S-4 dated March 20, 2001 (File No. 333-57302)).
- 10.2 First Amendment to Equipment Lease Agreement with respect to the senior secured notes operating lease facility, dated as of October 15, 2001, between BRL Universal Equipment 2001 A, L.P., as Lessor, and Universal Compression, Inc., as Lessee (incorporated by reference to Exhibit 10.1 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 24, 2001).
- 10.3 First Amended and Restated Participation Agreement, dated as of October 15, 2001, among Universal Compression, Inc., as Lessee, Universal Compression Holdings, Inc., as Guarantor, BRL Universal Compression Equipment 2001 A, L.P., as Lessor, the financial institutions listed on the signature pages as Tranche B Lenders, The Bank of New York, not in its individual capacity but as Indenture Trustee, Paying Agent, Transfer Agent and Registrar for the Tranche A Noteholders, BRL Universal Equipment Management, Inc., as Lessor General Partner, Bankers Trust Company, as Administrative Agent and Collateral Agent for the Tranche B Lenders and Indenture Trustee on behalf of the Tranche A Noteholders, Deutsche Banc Alex. Brown Inc., as Arranger, The Bank of Nova Scotia, as Syndicate Agent for Tranche B Lenders, Bank One, N.A., as Documentation Agent for Tranche B Lenders, and First Union National Bank, as Managing Agent (incorporated by reference to Exhibit 10.2 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 24, 2001).
- 10.4 Participation Agreement Supplement No. 1, dated as of October 23, 2001, among Universal Compression, Inc., as Lessee, Universal Compression Holdings, Inc., as Guarantor, BRL Universal Equipment 2001 A, L.P., as Lessor, and The Bank of New York, not in its individual capacity but as Indenture Trustee for the Tranche A Noteholders (incorporated by reference to Exhibit 10.3 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 24, 2001).
- 10.5 Tranche B Loan Agreement, dated as of February 9, 2001, among BRL Universal Equipment 2001 A, L.P., as Borrower, Bankers Trust Company, as Administrative Agent and Collateral Agent, and the Tranche B Lenders (incorporated by reference to Exhibit 10.4 to Registration Statement on Form S-4 dated March 20, 2001 (File No. 333-57302)).
- 10.6 First Amendment to Tranche B Loan Agreement, dated as of October 15, 2001, among BRL Universal Equipment 2001 A, L.P. and Bankers Trust Company, as Administrative Agent for Tranche B Lenders and as Collateral Agent (incorporated by reference to Exhibit 10.4 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 24, 2001).

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- 10.7 Master Equipment Lease Agreement, with respect to the ABS operating lease facility, dated as of February 9, 2001, between BRL Universal Compression Funding I, L.P., as Head Lessor, and UCO Compression LLC, as Head Lessee (incorporated by reference to Exhibit 10.5 to Registration Statement on Form S-4 dated March 20, 2001 (File No. 333-57302)).
- 10.8 Amendment No. 1 to the Master Equipment Lease Agreement, dated February 8, 2002, between BRL Universal Compression Funding I, L.P. and UCO Compression LLC (incorporated by reference to Exhibit 10.11 of Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2001).
- 10.9\* Amendment No. 2 to the Master Equipment Lease Agreement, dated as of March 29, 2002, between BRL Universal Compression Funding I, L.P. and UCO Compression LLC.
- 10.10\* Amendment No. 3 to the Master Equipment Lease Agreement, dated as of April 1, 2002, between BRL Universal Compression Funding I, L.P. and UCO Compression LLC.
- 10.11\* Amendment No. 4 to the Master Equipment Lease Agreement, dated as of May 31, 2002, between BRL Universal Compression Funding I, L.P. and UCO Compression LLC.
- 10.12 Senior Secured Revolving Credit Agreement, dated as of February 9, 2001, among Universal Compression, Inc., as Borrower, First Union National Bank, as Administrative Agent, Bank One,

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- N.A., as Syndication Agent, and the lenders signatory thereto (incorporated by reference to Exhibit 10.6 to Registration Statement on Form S-4 dated March 20, 2001 (File No. 333-57302)).
- 10.13\* First Amendment and Supplement to Senior Secured Revolving Credit Agreement, dated as of October 15, 2001, among Universal Compression, Inc., as Borrower, First Union National Bank, as Administrative Agent, Bank One, N.A., as Syndication Agent, and the lenders signatory thereto.
- 10.14 Guaranty and Collateral Agreement made by Universal Compression Holdings, Inc. and Universal Compression, Inc. and in favor of First Union National Bank, as Administrative Agent, dated as of February 9, 2001 (incorporated by reference to Exhibit 10.8 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2000).
- 10.15 Security Agreement (Pledge and Assignment), dated as of February 9, 2001, between Universal Compression International, Inc. and First Union National Bank, as Administrative Agent (incorporated by reference to Exhibit 10.9 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2000).
- 10.16 Engagement and Indemnity Letter, dated February 9, 2001 among Universal Compression, Inc., Universal Compression Holdings, Inc., Deutsche Banc Alex. Brown Inc., First Union Securities, Inc., Goldman Sachs & Co., Banc One Capital Markets, Inc., Scotia Capital (USA), Inc., BRL Universal Equipment 2001 A, L.P., and BRL Universal Equipment Corp. (incorporated by reference to Exhibit 10.12 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2000).
- 10.17 Guaranty made by Universal Compression Holdings, Inc. for the benefit of UCO Compression LLC, BRL Universal Compression Funding I, L.P. and Wells Fargo Bank National Association, dated as of February 9, 2001 (incorporated by reference to Exhibit 10.11 of Universal Compression Holdings, Inc.'s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on March 20, 2001 (File No. 333-57302)).

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- 10.18 Management Agreement dated February 9, 2001, among Universal Compression, Inc., UCO Compression LLC and BRL Universal Compression Funding I, L.P. (incorporated by reference to Exhibit 10.10 of Universal Compression Holdings, Inc.'s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on March 20, 2001 (File No. 333-57302)).
- 10.19 Amendment No. 1 to Management Agreement dated as of April 30, 2001, among Universal Compression, Inc., UCO Compression LLC and BRL Universal Compression Funding I, L.P. (incorporated by reference to Exhibit 10.13 of Universal Compression Holdings, Inc.'s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on May 11, 2001 (File No. 333-57302)).
- 10.20 Amendment No. 2 to Management Agreement dated as of July 16, 2001, among Universal Compression, Inc., UCO Compression LLC and BRL Universal Compression Funding I, L.P. (incorporated by reference to Exhibit 10.15 of Universal Compression Holdings, Inc.'s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on November 30, 2001 (File No. 333-74342)).
- 10.21 Amendment No. 3 to Management Agreement dated as of September 14, 2001, among Universal Compression, Inc., UCO Compression LLC and BRL Universal Compression Funding I, L.P. (incorporated by reference to Exhibit 10.16 of Universal Compression Holdings, Inc.'s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on November 30, 2001 (File No. 333-74342)).
- 10.22 Amendment No. 4 to Management Agreement, dated as of November 8, 2001, among Universal Compression, Inc., UCO Compression LLC and BRL Universal Compression Funding I, L.P. (incorporated by reference to Exhibit 10.8 of Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2001).
- 10.23 Amendment No. 5 to the Management Agreement, dated as of February 8, 2002, among Universal Compression, Inc., UCO Compression LLC and BRL Universal Compression Funding I, L.P. (incorporated by reference to Exhibit 10.9 of Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2001).
- 10.24\* Amendment No. 6 to the Management Agreement, dated as of March 29, 2002, among Universal Compression, Inc., UCO Compression LLC and BRL Universal Compression Funding I, L.P.
- 10.25\* Amendment No. 7 to the Management Agreement, dated as of May 31, 2002, among Universal Compression, Inc., UCO Compression LLC and BRL Universal Compression Funding I, L.P.
- 10.26 Back-up Management Agreement, dated as of February 1, 2002, among Caterpillar Inc., UCO Compression LLC, BRL Universal Compression Funding I, L.P. and Universal Compression, Inc. (incorporated by reference to Exhibit 10.10 of Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2001).

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- 10.27 Universal Compression Holdings, Inc. Restricted Stock Plan for Executive Officers (incorporated by reference to Exhibit 4.2 to Universal Compression Holdings, Inc.'s Registration Statement on Form S-8 dated August 17, 2001 (File No. 333-67784)).

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- 10.28 Universal Compression Holdings, Inc. Form of Restricted Stock Agreement with respect to the Restricted Stock Plan for Executive Officers (incorporated by reference to Exhibit 10.8 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
- 10.29 Universal Compression Holdings, Inc. Directors' Stock Plan (incorporated by reference to Exhibit 4.3 to Universal Compression Holdings, Inc.'s Registration Statement on Form S-8 dated August 17, 2001 (File No. 333-67784)).
- 10.30\* Form of Stock Option Agreements under Directors' Stock Plan between Universal Compression Holdings, Inc. and each of Thomas C. Case, Lisa W. Rodriguez, Edmund P. Segner, III, Bernard J. Duroc-Danner, William M. Pruellage, Samuel Urcis, Uriel E. Dutton, and Curtis W. Huff.
- 10.31 Registration Rights Agreement dated February 20, 1998 by and among Universal Compression, Inc., Castle Harlan Partners III, L.P. and each other party listed as signatory thereto (incorporated by reference to Exhibit 10.14 to Universal Compression Holdings, Inc.'s Registration Statement on Form S-4 dated March 19, 1998 (File No. 333-48283)).
- 10.32 Registration Rights Agreement, dated July 11, 2001, among Universal Compression Holdings, Inc. and the former shareholders of KCI, Inc. (incorporated by reference to Exhibit 10.1 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2001).
- 10.33 Registration Rights Agreement, dated July 11, 2001, among Universal Compression Holdings, Inc., MCNIC Compression GP, Inc. and MCNIC Compression LP, Inc. (incorporated by reference to Exhibit 10.2 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2001).
- 10.34 Form of Instruments of Accession to Registration Rights Agreement for each of Richard W. FitzGerald and Valerie L. Banner (incorporated by reference to Exhibit 4.10 to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).
- 10.35 Instrument of Accession to Registration Rights Agreement, dated April 28, 2000, for Energy Spectrum Partners LP (incorporated by reference to Exhibit 10.19 to Amendment No. 2 dated May 22, 2000, to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).
- 10.36 Registration Agreement, dated September 15, 2000, by and among Universal Compression Holdings, Inc., the Reuben James Helton Trust dated January 24, 2000, and Michael Pahl (incorporated by reference to Exhibit 4.1 to Universal Compression Holdings, Inc.'s Current Report on Form 8-K dated September 29, 2000).
- 10.37 Escrow Agreement, dated as of September 15, 2000, by and among Universal Compression Holdings, Inc., the Reuben James Helton Trust dated January 24, 2000, Garlin Rymes, as representative of the Trust, Michael Pahl and State Street Bank and Trust Company (incorporated by reference to Exhibit 10.1 to Universal Compression Holdings, Inc.'s and Universal Compression, Inc.'s Current Report on Form 8-K dated September 29, 2000).
- 10.38 Universal Compression Holdings, Inc. Incentive Stock Option Plan (incorporated by reference to Exhibit 10 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 1998).

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- 10.39 Amendment Number One to Incentive Stock Option Plan, dated April 20, 2000 (incorporated by reference to Exhibit 10.3 to Amendment No. 2 dated May 22, 2000, to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).
- 10.40 Amendment Number Two to Incentive Stock Option Plan, dated May 15, 2000 (incorporated by reference to Exhibit 10.4 to Amendment No. 2 dated May 22, 2000, to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).
- 10.41 Amendment Number Three to Incentive Stock Option Plan, dated November 27, 2000 (incorporated by reference to Exhibit 4.7 to Universal Compression Holdings, Inc.'s Registration Statement on Form S-8 filed on February 9, 2001).
- 10.42 Stock Option Agreements between Universal Compression Holdings, Inc., and each of Ernie Danner, Stephen Snider, Samuel Urcis and Newton Schnoor (incorporated by reference to Exhibit 10.18 to Universal Compression Holdings, Inc.'s Registration Statement on Form S-4 dated March

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- 19, 1998 (File No. 333-48283)).
- 10.43 Stock Option Agreement, dated April 12, 1999, between Universal Compression Holdings, Inc. and Richard W. FitzGerald (incorporated by reference to Exhibit 10.2 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 1999).
- 10.44 Form of Stock Option Agreements between Universal Compression Holdings, Inc. and each of Jack B. Hilburn, H. Patrick Jones and Kirk E. Townsend (incorporated by reference to Exhibit 10.24 to Amendment No. 1 May 3, 2000, to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).
- 10.45 Stock Option Agreement, effective as of October 18, 2000, by and between Universal Compression Holdings, Inc. and Mark L. Carlton (incorporated by reference to Exhibit 10.6 to Universal Compression Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
- 10.46 Form of Stock Option Agreements of Universal Compression Holdings, Inc., effective as of April 20, 2000 (incorporated by reference to Exhibit 10.30 to Amendment No. 2 dated May 22, 2000, to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).
- 10.47 Agreement, dated October 27, 1999, among Universal Compression, Inc., Universal Compression Holdings, Inc., and Jack B. Hilburn (incorporated by reference to Exhibit 10.23 to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).
- 10.48 Agreement, dated October 27, 1999, among Universal Compression, Inc., Universal Compression Holdings, Inc. and Kirk E. Townsend (incorporated by reference to Exhibit 10.24 to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).
- 10.49 Form of Agreement for Mark L. Carlton (incorporated by reference to Exhibit 10.9 of Universal Compression Holdings, Inc.'s Current Report on Form 8-K dated March 22, 2001).

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- 10.50 Form of Indemnification Agreements for each of Samuel Urcis, Stephen A. Snider, John K. Castle, William M. Pruellage, Newt Schnoor, C. Kent May, Thomas C. Case, Jack B. Hilburn, Ernie L. Danner, Kirk E. Townsend, Hanford P. Jones, Richard W. FitzGerald, Edmund P. Segner III, Mark L. Carlton, Curtis W. Huff and Uriel E. Dutton (incorporated by reference to Exhibit 10.27 to Amendment No. 1 dated May 3, 2000, to Universal Compression Holdings, Inc.'s Registration Statement on Form S-1 (File No. 333-34090)).
- 10.51 Form of Indemnification Agreement for Bernard J. Duroc-Danner (incorporated by reference to Exhibit 10.8 of Universal Compression Holdings, Inc.'s Current Report on Form 8-K dated March 22, 2001).
- 10.52 Universal Compression, Inc. Employees' Supplemental Savings Plan (incorporated by reference to Exhibit 10.42 of Universal Compression Holdings, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2001).
- 10.53\* Amendment Number 1 to the Universal Compression, Inc. Employees' Supplemental Savings Plan dated as of January 1, 2002.
- 10.54 Letter dated March 15, 2001, with respect to certain retirement benefits to be provided to Stephen A. Snider (incorporated by reference to Exhibit 10.43 of Universal Compression Holdings, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2001).
- 10.55 Universal Compression Holdings, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.1 to Universal Compression Holdings, Inc.'s Registration Statement on Form S-8 dated August 17, 2001 (File No. 333-67784)).
- 10.56\* Amendment Number 1 to the Universal Compression Holdings, Inc. Employee Stock Purchase Plan dated as of December 20, 2001.
- 21.1\* List of Subsidiaries.

\*

Filed herewith.

Management Contract or Compensatory Plan or Arrangement.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Universal Compression Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Universal Compression Holdings, Inc. and subsidiaries (the "Company") as of March 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2002. Our audits also included the financial statement schedule listed in the Index at E-1, which represents Schedule II to the consolidated financial statements of the Company. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2001 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in the year ended March 31, 2002 the Company changed its method of accounting and reporting for goodwill to conform to the Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/ DELOITTE & TOUCHE LLP

Houston, Texas  
June 14, 2002

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**UNIVERSAL COMPRESSION HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands)**

|  | <b>March 31, 2001</b> | <b>March 31, 2002</b> |
|--|-----------------------|-----------------------|
|  | <b>_____</b>          | <b>_____</b>          |
| <b>ASSETS</b>  |                       |                       |
| Current assets:  |                       |                       |
| Cash and cash equivalents  | \$ 12,279             | \$ 6,176              |
| Accounts receivable, net of allowance for bad debts of \$2,771 and \$7,470 as of March 31, 2001 and 2002, respectively       | 87,088                | 111,829               |
| Current portion of notes receivable  | 3,928                 | 3,010                 |
| Inventories, net of reserve for obsolescence of \$17,607 and \$10,537 as of March 31, 2001 and 2002, respectively            | 120,939               | 102,748               |
| Current deferred tax asset   |                       | 8,360                 |
| Other  | 20,284                | 19,283                |
|  | <b>_____</b>          | <b>_____</b>          |
| Total current assets   | 244,518               | 251,406               |
| Property, plant and equipment  | 592,449               | 618,975               |
| Other property   | 52,810                | 84,254                |
| Accumulated depreciation   | (55,634)              | (86,647)              |
|  | <b>_____</b>          | <b>_____</b>          |
| Net property, plant and equipment  | 589,625               | 616,582               |
| Goodwill, net of accumulated amortization of \$8,773 as of March 31, 2001 and 2002   | 294,358               | 380,559               |
| Notes receivable   | 4,803                 | 3,222                 |
| Other non-current assets, net of accumulated amortization of \$1,777 and \$5,031 as of March 31, 2001 and 2002, respectively | 30,819                | 25,396                |
| Non-current deferred tax asset   | 12,133                |                       |
|  | <b>_____</b>          | <b>_____</b>          |
| Total assets   | \$ 1,176,256          | \$ 1,277,165          |
|  | <b>_____</b>          | <b>_____</b>          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                       |
| Current liabilities:   |                       |                       |
| Accounts payable, trade  | \$ 67,450             | \$ 42,961             |
| Accrued liabilities  | 61,915                | 64,721                |
| Current deferred tax liability   | 13,938                |                       |
| Current portion of long-term debt and capital lease obligation   | 3,452                 | 3,801                 |
|  | <b>_____</b>          | <b>_____</b>          |
| Total current liabilities  | 146,755               | 111,483               |
| Capital lease obligations  | 6,086                 | 3,634                 |
| Long-term debt   | 205,569               | 219,327               |
| Non-current deferred tax liability   | 90,126                | 127,317               |

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|   | March 31, 2001      | March 31, 2002      |
|---|---------------------|---------------------|
| Deferred gain   | 75,146              | 114,261             |
| Other liabilities   |                     | 799                 |
| <b>Total liabilities</b>  | <b>523,682</b>      | <b>576,821</b>      |
| Commitments and contingencies (see note 10)   |                     |                     |
| Stockholders' equity:   |                     |                     |
| Common stock, \$.01 par value, 200,000 and 200,000 shares authorized, 28,488 and 30,644 shares issued, 28,475 and 30,602 shares outstanding as of March 31, 2001 and 2002, respectively | 285                 | 306                 |
| Treasury stock, 13 and 42 shares at cost outstanding as of March 31, 2001 and 2002, respectively  | (134)               | (934)               |
| Additional paid-in capital  | 663,882             | 723,831             |
| Deferred compensation   |                     | (2,446)             |
| Other comprehensive income (loss)   | 845                 | (57,517)            |
| Retained earnings (deficit)   | (12,304)            | 37,104              |
| <b>Total stockholders' equity</b>   | <b>652,574</b>      | <b>700,344</b>      |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 1,176,256</b> | <b>\$ 1,277,165</b> |

See accompanying notes to consolidated financial statements.

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**UNIVERSAL COMPRESSION HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)

|   | For the Year Ended March 31, |                   |                   |
|---|------------------------------|-------------------|-------------------|
|   | 2000                         | 2001              | 2002              |
| Revenues:   |                              |                   |                   |
| Contract compression                              | \$ 98,295                    | \$ 149,235        | \$ 327,735        |
| Fabrication and aftermarket services              | 38,000                       | 83,231            | 352,254           |
| <b>Total revenues</b>                             | <b>\$ 136,295</b>            | <b>\$ 232,466</b> | <b>\$ 679,989</b> |
| Costs and expenses:                               |                              |                   |                   |
| Contract compression direct costs                 | 35,352                       | 52,345            | 114,432           |
| Fabrication and aftermarket services direct costs | 31,943                       | 70,714            | 297,211           |
| Depreciation and amortization                     | 26,006                       | 33,491            | 48,600            |
| Selling, general and administrative               | 16,797                       | 21,092            | 60,890            |
| Operating lease                                   |                              | 14,443            | 55,401            |
| Interest expense, net                             | 34,327                       | 23,220            | 23,017            |
| Other (income) / expense, net                     | (154)                        | (295)             | 99                |
| Non-recurring charges                             |                              | 8,699             |                   |

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For the Year Ended March 31,

|   |            |            |            |
|---|------------|------------|------------|
| Total costs and expenses  | \$ 144,271 | \$ 223,709 | \$ 599,650 |
| Income (loss) before income taxes and extraordinary items         | (7,976)    | 8,757      | 80,339     |
| Income tax expense (benefit)                                      | (1,994)    | 3,645      | 30,931     |
| Income (loss) before extraordinary items                          | \$ (5,982) | \$ 5,112   | \$ 49,408  |
| Extraordinary loss, net of \$5,701 income tax benefit             |            | (9,503)    |            |
| Net income (loss)   | \$ (5,982) | \$ (4,391) | \$ 49,408  |
| Weighted average common and common equivalent shares outstanding: |            |            |            |
| Basic   | 2,448      | 14,760     | 30,008     |
| Diluted   | 2,448      | 15,079     | 30,250     |
| Earnings per share basic:   |            |            |            |
| Income (loss) before extraordinary items                          | \$ (2.44)  | \$ 0.35    | \$ 1.65    |
| Extraordinary loss  |            | (0.65)     |            |
| Net income (loss)   | \$ (2.44)  | \$ (0.30)  | \$ 1.65    |
| Earnings per share diluted:                                       |            |            |            |
| Income (loss) before extraordinary items                          | \$ (2.44)  | \$ 0.34    | \$ 1.63    |
| Extraordinary loss  |            | (0.63)     |            |
| Net income (loss)   | \$ (2.44)  | \$ (0.29)  | \$ 1.63    |

See accompanying notes to consolidated financial statements.

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UNIVERSAL COMPRESSION HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended March 31, 2000, 2001 and 2002

(In thousands, except for share data)

|                                       | Common Stock |        | Preferred Stock |        | Class A<br>Non<br>Voting<br>Shares | Additional<br>Paid in<br>Capital | Retained<br>Earnings<br>(Deficit) | Treasury<br>Stock | Deferred<br>Compensation | Other<br>Comprehensive<br>Income (loss) | Total |
|---------------------------------------|--------------|--------|-----------------|--------|------------------------------------|----------------------------------|-----------------------------------|-------------------|--------------------------|---|-------|
|                                       | Shares       | Amount | Shares          | Amount |                                    |                                  |                                   |                   |                          |   |       |
| Balance, March 31, 1999               | 2,450,518    | \$ 3   | 1,320,144       | \$ 13  | 3,950                              | \$ 82,698                        | \$ (1,931)                        | \$ (9)            | \$                       | \$ 80,774                               |       |
| Common stock cancellation             | (30)         |        |                 |        |                                    |                                  |                                   |                   |                          |   |       |
| Series A preferred stock cancellation |              |        | (16)            |        |                                    | (1)                              |                                   |                   |                          | (1)                                     |       |
| Treasury stock purchase 5,630 shares  | (3,178)      |        | (1,712)         |        | (740)                              |                                  |                                   | (144)             |                          | (144)                                   |       |

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|   | Common Stock |        | Preferred Stock |       |         |            |             |          |            |                        |
|---|--------------|--------|-----------------|-------|---------|------------|-------------|----------|------------|------------------------|
| at \$50 per share   |              |        |                 |       |         |            |             |          |            |                        |
| Sale of treasury stock  |              |        |                 |       |         |            |             |          |            |                        |
| 1,371 shares at \$50 per share                                |              |        |                 |       |         |            |             | 30       |            | 30                     |
| Net loss  | 891          |        | 480             |       |         |            | (5,982)     |          |            | (5,982)                |
| Balance, March 31, 2000                                       | 2,448,201    | \$ 3   | 1,318,896       | \$ 13 | 3,210   | \$ 82,697  | \$ (7,913)  | \$ (123) |            | \$ 74,677              |
| Stock issued for acquisitions                                 | 15,279,869   | 152    | 160,010         | 1     |         | 429,508    |             |          |            | 429,661                |
| Option exercises  | 65,649       | 1      |                 |       |         | 917        |             |          |            | 918                    |
| Shares issued in connection with initial public offering      | 7,431,752    | 74     |                 |       |         | 150,801    |             |          |            | 150,875                |
| Conversion of preferred and Class A non voting stock          | 3,249,695    | 55     | (1,478,869)     | (14)  | (2,026) | (41)       |             |          |            |                        |
| Purchases of treasury stock                                   | (30)         |        | (37)            |       | (1,184) |            |             | (11)     |            | (11)                   |
| Net loss  |              |        |                 |       |         |            | (4,391)     |          |            | (4,391)                |
| Foreign currency translation adjustment                       |              |        |                 |       |         |            |             |          | 845        | 845                    |
| Comprehensive loss  |              |        |                 |       |         |            |             |          |            | (3,546)                |
| Balance, March 31, 2001                                       | 28,475,136   | \$ 285 |                 |       |         | \$ 663,882 | \$ (12,304) | \$ (134) | \$ 845     | \$ 652,574             |
| Common stock issuance   | 1,333,333    | 13     |                 |       |         | 36,118     |             |          |            | 36,131                 |
| Stock issued for acquisition                                  | 694,927      | 7      |                 |       |         | 19,993     |             |          |            | 20,000                 |
| Treasury stock redeem, at \$27 per share                      | (28,379)     |        |                 |       |         |            |             | (800)    |            | (800)                  |
| Option exercises  | 109,419      | 1      |                 |       |         | 1,099      |             |          |            | 1,100                  |
| Shares issued in 401(k) plan and employee stock purchase plan | 17,606       |        |                 |       |         | 1,006      |             |          |            | 1,006                  |
| Share issuances costs   |              |        |                 |       |         | (1,122)    |             |          |            | (1,122)                |
| Deferred compensation   |              |        |                 |       |         | 2,855      |             | (2,855)  |            |                        |
| Amortization of deferred compensation                         |              |        |                 |       |         |            |             | 409      |            | 409                    |
| Net income  |              |        |                 |       |         |            | 49,408      |          |            | 49,408                 |
| Foreign currency translation adjustment                       |              |        |                 |       |         |            |             |          | (58,362)   | (58,362)               |
| Comprehensive loss  |              |        |                 |       |         |            |             |          |            | (8,954)                |
| Balance, March 31, 2002                                       | 30,602,042   | \$ 306 |                 |       |         | \$ 723,831 | \$ 37,104   | \$ (934) | \$ (2,446) | \$ (57,517) \$ 700,344 |

See accompanying notes to consolidated financial statements.

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(In thousands)

|   | For the Year Ended March 31, |                |                  |
|---|------------------------------|----------------|------------------|
|   | 2000                         | 2001           | 2002             |
| <b>Cash flows from operating activities:</b>  |                              |                |                  |
| Net income (loss)   | \$ (5,982)                   | \$ (4,391)     | \$ 49,408        |
| Adjustments to reconcile net income (loss) to cash provided by operating activities, net of effect of acquisitions: |                              |                |                  |
| Depreciation and amortization   | 26,006                       | 33,491         | 48,600           |
| (Gain) loss on asset sales  | (124)                        | 119            | (286)            |
| Amortization of debt issuance costs   | 1,162                        | 1,472          | 3,006            |
| Amortization of deferred compensation   |                              |                | 409              |
| Accretion of discount notes   | 20,258                       | 19,105         | 20,073           |
| Increase (decrease) in deferred taxes   | (2,921)                      | 108,161        | 20,827           |
| (Increase) decrease in other assets   | (633)                        | (14,626)       | 21,225           |
| (Increase) decrease in receivables  | 5,202                        | (26,239)       | (10,404)         |
| (Increase) decrease in inventories  | 1,545                        | (19,272)       | 40,048           |
| Increase (decrease) in accounts payable   | 2,320                        | 23,591         | (44,947)         |
| Increase (decrease) in accrued liabilities  | 411                          | (32,780)       | (14,881)         |
| Other   | (100)                        | 845            |                  |
|   | <b>47,144</b>                | <b>89,476</b>  | <b>133,078</b>   |
| <b>Cash flows from investing activities:</b>  |                              |                |                  |
| Additions to property, plant and equipment  | (60,002)                     | (68,006)       | (188,019)        |
| Acquisition of Weatherford Global   |                              | (409,423)      |                  |
| Other acquisitions, net of cash received of \$900   | (5,543)                      | (55,338)       | (160,021)        |
| Proceeds from sale of property, plant and equipment   | 4,442                        | 529,449        | 187,784          |
|   | <b>(61,103)</b>              | <b>(3,318)</b> | <b>(160,256)</b> |
| <b>Cash flows provided by (used in) financing activities:</b>   |                              |                |                  |
| Principal repayments of long-term debt  | (750)                        | (106,863)      | (7,401)          |
| Net repayment under revolving line of credit  | (400)                        | (97,408)       |                  |
| Net proceeds (repayment) on sale-leaseback of vehicles  | 3,119                        | (1,484)        | (2,878)          |
| Net proceeds (repayment) of financing lease   | 10,581                       | (10,580)       | &#15             |