



Edgar Filing: TETRA TECHNOLOGIES INC - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of August 7, 2015, there were 80,192,311 shares outstanding of the Company’s Common Stock, \$0.01 par value per share.

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PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements.

TETRA Technologies, Inc. and Subsidiaries  
Consolidated Statements of Operations  
(In Thousands, Except Per Share Amounts)  
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenues:				
Product sales	\$ 149,652	\$ 82,871	\$ 234,538	\$ 159,623
Services and rentals	166,667	159,618	332,873	295,723
Total revenues	316,319	242,489	567,411	455,346
Cost of revenues:				
Cost of product sales	105,084	76,706	168,663	141,735
Cost of services and rentals	102,307	108,301	205,391	208,239
Depreciation, amortization, and accretion	39,067	22,007	77,410	45,047
Total cost of revenues	246,458	207,014	451,464	395,021
Gross profit	69,861	35,475	115,947	60,325
General and administrative expense	37,472	32,270	72,741	65,690
Interest expense, net	12,340	4,604	25,226	9,315
Other (income) expense, net	1,941	1,095	1,927	(1,503)
Income (loss) before taxes	18,108	(2,494)	16,053	(13,177)
Provision (benefit) for income taxes	2,741	(944)	4,310	(5,537)
Net income (loss)	15,367	(1,550)	11,743	(7,640)
Less: income attributable to noncontrolling interest	(442)	(907)	(1,266)	(1,751)
Net income (loss) attributable to TETRA stockholders	\$ 14,925	\$ (2,457)	\$ 10,477	\$ (9,391)
Basic net income (loss) per common share:				
Net income (loss) attributable to TETRA stockholders	\$ 0.19	\$ (0.03)	\$ 0.13	\$ (0.12)
Average shares outstanding	79,165	78,525	79,037	78,416
Diluted net income (loss) per common share:				
Net income (loss) attributable to TETRA stockholders	\$ 0.19	\$ (0.03)	\$ 0.13	\$ (0.12)
Average diluted shares outstanding	79,915	78,525	79,506	78,416

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries  
 Consolidated Statements of Comprehensive Income (Loss)  
 (In Thousands)  
 (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income (loss)	\$ 15,367	\$(1,550)	) \$ 11,743	\$(7,640)
Foreign currency translation adjustment, including taxes of \$0 and \$0 in 2015 and including taxes of \$(750) and \$446 in 2014	2,358	3,244	(7,429)	) 777
Comprehensive income (loss)	17,725	1,694	4,314	(6,863)
Less: comprehensive income attributable to noncontrolling interest	(442)	) (907)	) (1,266)	) (1,751)
Comprehensive income (loss) attributable to TETRA stockholders	\$ 17,283	\$ 787	\$ 3,048	\$(8,614)

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries  
 Consolidated Balance Sheets  
 (In Thousands)

	June 30, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$41,941	\$48,384
Restricted cash	8,697	8,721
Trade accounts receivable, net of allowances of \$5,299 in 2015 and \$2,485 in 2014	190,908	226,966
Deferred tax asset, net	351	392
Inventories	181,942	189,357
Assets held for sale	—	2,568
Prepaid expenses and other current assets	27,634	24,463
Total current assets	451,473	500,851
Property, plant, and equipment:		
Land and building	79,173	75,200
Machinery and equipment	1,359,786	1,292,734
Automobiles and trucks	51,311	57,035
Chemical plants	180,078	174,108
Construction in progress	6,894	21,483
Total property, plant, and equipment	1,677,242	1,620,560
Less accumulated depreciation	(556,428)	(496,368)
Net property, plant, and equipment	1,120,814	1,124,192
Other assets:		
Goodwill	293,278	293,866
Patents, trademarks and other intangible assets, net of accumulated amortization of \$46,095 in 2015 and \$39,754 in 2014	99,813	105,967
Deferred tax assets, net	1,974	1,791
Other assets	36,293	40,966
Total other assets	431,358	442,590
Total assets	\$2,003,645	\$2,067,633

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries  
 Consolidated Balance Sheets  
 (In Thousands, Except Share Amounts)

	June 30, 2015 (Unaudited)	December 31, 2014
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$79,720	\$119,240
Unearned income	58,884	70,688
Accrued liabilities	86,986	85,681
Current portion of long-term debt	90,000	90,074
Decommissioning and other asset retirement obligations	11,521	12,758
Total current liabilities	327,111	378,441
Long-term debt, net of current portion	846,112	844,961
Deferred income taxes	9,538	10,525
Decommissioning and other asset retirement obligations, net of current portion	47,887	49,983
Other liabilities	17,953	18,122
Total long-term liabilities	921,490	923,591
Commitments and contingencies		
Equity:		
TETRA stockholders' equity:		
Common stock, par value \$0.01 per share; 100,000,000 shares authorized; 82,924,318 shares issued at June 30, 2015 and 82,322,876 shares issued at December 31, 2014	829	823
Additional paid-in capital	244,053	241,166
Treasury stock, at cost; 2,731,509 shares held at June 30, 2015, and 2,672,930 shares held at December 31, 2014	(16,664)	(16,419)
Accumulated other comprehensive income (loss)	(33,644)	(26,215)
Retained earnings	180,835	170,358
Total TETRA stockholders' equity	375,409	369,713
Noncontrolling interests	379,635	395,888
Total equity	755,044	765,601
Total liabilities and equity	\$2,003,645	\$2,067,633

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(In Thousands)  
(Unaudited)

	Six Months Ended		
	June 30,		
	2015	2014	
Operating activities:			
Net income (loss)	\$ 11,743	\$(7,640	)
Reconciliation of net income (loss) to cash provided by operating activities:			
Depreciation, amortization, and accretion	77,410	45,047	
Provision (benefit) for deferred income taxes	(953	) (12,932	)
Equity-based compensation expense	4,197	3,273	
Provision for doubtful accounts	1,354	(10	)
Excess decommissioning and abandoning costs	6	18,965	
Other non-cash charges and credits	(109	) (3,272	)
Gain on sale of assets	(2,306	) (239	)
Changes in operating assets and liabilities, net of assets acquired:			
Accounts receivable	31,137	10,198	
Inventories	6,148	8,979	
Prepaid expenses and other current assets	(2,092	) 3,820	
Trade accounts payable and accrued expenses	(43,079	) 6,536	
Decommissioning liabilities, net	(4,411	) (29,766	)
Other	3,117	(2,339	)
Net cash provided by operating activities	82,162	40,620	
Investing activities:			
Purchases of property, plant, and equipment	(73,269	) (52,240	)
Acquisition of businesses, net of cash acquired	—	(18,337	)
Proceeds on sale of property, plant, and equipment	3,943	4,250	
Other investing activities	(323	) (935	)
Net cash used in investing activities	(69,649	) (67,262	)
Financing activities:			
Proceeds from long-term debt	203,871	76,450	
Principal payments on long-term debt	(203,045	) (47,626	)
CCLP distributions	(18,723	) (2,508	)
Proceeds from exercise of stock options	101	391	
Other financing activities	(244	) (369	)
Net cash provided by (used in) financing activities	(18,040	) 26,338	
Effect of exchange rate changes on cash	(916	) (881	)
Decrease in cash and cash equivalents	(6,443	) (1,185	)
Cash and cash equivalents at beginning of period	48,384	38,754	
Cash and cash equivalents at end of period	\$41,941	\$37,569	
Supplemental cash flow information:			
Interest paid	\$28,418	\$8,916	
Income taxes paid	4,814	6,972	

See Notes to Consolidated Financial Statements





TETRA Technologies, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Unaudited)

NOTE A – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

We are a geographically diversified oil and gas services company, focused on completion fluids and associated products and services, water management, frac flowback, production well testing, offshore rig cooling, compression services and equipment, and selected offshore services including well plugging and abandonment, decommissioning, and diving. We also have a limited domestic oil and gas production business. We were incorporated in Delaware in 1981 and are composed of five reporting segments organized into four divisions – Fluids, Production Testing, Compression, and Offshore. Unless the context requires otherwise, when we refer to “we,” “us,” and “our,” we are describing TETRA Technologies, Inc. and its consolidated subsidiaries on a consolidated basis.

The consolidated financial statements include the accounts of our wholly owned subsidiaries. We consolidate the financial statements of CSI Compressco LP and its subsidiaries ("CCLP") as part of our Compression segment. We control CCLP through our ownership of its general partner. The public ownership share of CCLP's net assets and earnings is presented as a component of noncontrolling interest in our consolidated financial statements. Investments in unconsolidated joint ventures in which we participate are accounted for using the equity method. Our interests in oil and gas properties are proportionately consolidated. All significant intercompany accounts and transactions have been eliminated in consolidation.

As a result of CCLP's acquisition of Compressor Systems, Inc. ("CSI") on August 4, 2014, our Compression Division's operations have significantly expanded. See Note B - Acquisitions for further discussion.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission ("SEC") and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished reflects all normal recurring adjustments, which are, in the opinion of management, necessary to provide a fair statement of the results for the interim periods. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2014.

Certain previously reported financial information has been reclassified to conform to the current year period's presentation. The impact of such reclassifications was not significant to the prior year period's overall presentation. These reclassifications include the final allocation of the purchase price of CSI. See Note B - Acquisitions for further discussion.

Beginning in 2014, and continuing into mid-2015, significant decreases in oil and natural gas commodity prices lowered the capital expenditure and operating plans of many of our customers, creating additional uncertainty regarding the expected demand for many of our products and services and the resulting cash flows from operating activities for the foreseeable future. In addition, the availability of new borrowings in the current capital markets is more limited and costly. Accordingly, we continue to implement cost reduction measures designed to lower our cost structure in the current market environment, and have taken other steps to improve our operating cash flows. In addition, we are considering certain financing transactions with a view of generating additional cash to reduce the amount of our outstanding borrowings under our credit agreement, repay or refinance certain of our senior notes, and generate additional liquidity. We believe the steps taken have enhanced our operating cash flows and will continue to enhance our operating cash flows in the future. As a result, we believe that, despite the current industry environment and activity levels, we will have adequate liquidity to fund our operations and debt obligations and maintain

compliance with debt covenants through June 30, 2016, including the repayment of the \$90.0 million principal amount of the Series 2006-A Senior Notes, which mature in April 2016. However, we cannot predict how an extended period of low commodity prices will affect our operations and liquidity levels.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and

expenses during the reporting period. For further discussion of fair value measurements in connection with the allocation of the purchase price of the CSI acquisition, see Note B - Acquisitions. Actual results could differ from those estimates, and such differences could be material.

#### Cash Equivalents

We consider all highly liquid cash investments, with a maturity of three months or less when purchased, to be cash equivalents.

#### Restricted Cash

Restricted cash is classified as a current asset when it is expected to be repaid or settled in the next twelve month period. Restricted cash reported on our balance sheet as of June 30, 2015 consists primarily of escrowed cash associated with our July 2011 purchase of a heavy lift derrick barge. The escrowed cash will be released to the sellers or us in accordance with the terms of the escrow agreement.

#### Inventories

Inventories are stated at the lower of cost or market value. The cost of finished goods, raw materials, and parts and supplies are determined using the weighted average method. The cost of work in progress is determined using the specific identification method.

Significant components of inventories as of June 30, 2015, and December 31, 2014, are as follows:

	June 30, 2015 (In Thousands)	December 31, 2014
Finished goods	\$54,502	\$62,188
Raw materials	3,318	5,005
Parts and supplies	53,282	51,229
Work in progress	70,840	70,935
Total inventories	\$181,942	\$189,357

Finished goods inventories include newly manufactured clear brine fluids as well as recycled brines that are repurchased from certain customers. Recycled brines are recorded at cost, using the weighted average method. Work in progress inventory consists primarily of new compressor packages located in the CCLP fabrication facility in Midland, Texas. We provide a reserve for estimated unrealizable inventory equal to the difference between the cost of inventory and its estimated realizable value.

#### Net Income (Loss) per Share

The following is a reconciliation of the weighted average number of common shares outstanding with the number of shares used in the computations of net income (loss) per common and common equivalent share:

Three Months Ended		Six Months Ended	
June 30,		June 30,	
2015	2014	2015	2014
(In Thousands)			

Number of weighted average common shares outstanding