TETRA TECHNOLOGIES INC
Form 10-Q
May 11, 2015

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

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

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER 1-13455

TETRA Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	74-2148293 (I.R.S. Employer Identification No.)
24955 Interstate 45 North The Woodlands, Texas (Address of principal executive offices)	77380 (zip code)

(281) 367-1983
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer [X]	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 [X]

As of May 8, 2015, there were 79,637,789 shares outstanding of the Company's Common Stock, $0.01 par value per share.

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 March 31, 2015		2014	
Revenues:				
Product sales	$84,886		$76,752	
Services and rentals	166,206		136,105	
Total revenues	251,092		212,857	
Cost of revenues:				
Cost of product sales	63,579		65,029	
Cost of services and rentals	103,084		99,938	
Depreciation, amortization, and accretion	38,342		23,040	
Total cost of revenues	205,005		188,007	
Gross profit	46,087		24,850	
General and administrative expense	35,269		33,420	
Interest expense, net	12,886		4,711	
Other (income) expense, net	(14	)	(2,598	)
Income (loss) before taxes	(2,054	)	(10,683	)
Provision (benefit) for income taxes	1,568		(4,593	)
Net income (loss)	(3,622	)	(6,090	)
Less: income attributable to noncontrolling interest	(825	)	(844	)
Net income (loss) attributable to TETRA stockholders	$(4,447	)	$(6,934	)
Basic net income (loss) per common share:				
Net income (loss) attributable to TETRA stockholders	$(0.06	)	$(0.09	)
Average shares outstanding	78,907		78,306	
Diluted net income (loss) per common share:				
Net income (loss) attributable to TETRA stockholders	$(0.06	)	$(0.09	)
Average diluted shares outstanding	78,907		78,306	

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31, 2015	2014
Net income (loss)	$(3,622)	$(6,090)
Foreign currency translation adjustment, including taxes of $0 in 2015 and including taxes of $1,196 in 2014	(9,787)	(2,467)
Comprehensive income (loss)	(13,409)	(8,557)
Less: comprehensive income attributable to noncontrolling interest	(825)	(844)
Comprehensive income (loss) attributable to TETRA stockholders	$(14,234)	$(9,401)

See Notes to Consolidated Financial Statements

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

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$34,516	$48,384
Restricted cash	8,805	8,721
Trade accounts receivable, net of allowances for doubtful accounts of $2,374 in 2015 and $2,485 in 2014	191,378	227,053
Deferred tax asset, net	440	392
Inventories	199,835	189,144
Assets held for sale	—	2,568
Prepaid expenses and other current assets	24,215	24,286
Total current assets	459,189	500,548
Property, plant, and equipment:		
Land and building	76,058	75,200
Machinery and equipment	1,336,256	1,293,165
Automobiles and trucks	55,564	57,035
Chemical plants	173,658	174,108
Construction in progress	17,147	21,483
Total property, plant, and equipment	1,658,683	1,620,991
Less accumulated depreciation	(526,597)	(496,368)
Net property, plant, and equipment	1,132,086	1,124,623
Other assets:		
Goodwill	290,960	293,941
Patents, trademarks and other intangible assets, net of accumulated amortization of $42,344 in 2015 and $39,754 in 2014	103,170	105,967
Deferred tax assets, net	2,618	1,791
Other assets	40,852	40,966
Total other assets	437,600	442,665
Total assets	$2,028,875	$2,067,836

See Notes to Consolidated Financial Statements

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

	March 31, 2015 (Unaudited)	December 31, 2014
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	$78,948	$119,240
Unearned income	88,020	70,688
Accrued liabilities	76,338	85,884
Current portion of long-term debt	90,000	90,074
Decommissioning and other asset retirement obligations	9,243	12,758
Total current liabilities	342,549	378,644
Long-term debt, net of current portion	859,785	844,961
Deferred income taxes	10,650	10,525
Decommissioning and other asset retirement obligations, net of current portion	53,397	49,983
Other liabilities	17,899	18,122
Total long-term liabilities	941,731	923,591
Commitments and contingencies		
Equity:		
TETRA stockholders' equity:		
Common stock, par value $0.01 per share; 100,000,000 shares authorized; 82,322,876 shares issued at March 31, 2015 and 82,322,876 shares issued at December 31, 2014	823	823
Additional paid-in capital	242,366	241,166
Treasury stock, at cost; 2,689,533 shares held at March 31, 2015, and 2,672,930 shares held at December 31, 2014	(16,419)	(16,419)
Accumulated other comprehensive income (loss)	(36,002)	(26,215)
Retained earnings	165,911	170,358
Total TETRA stockholders' equity	356,679	369,713
Noncontrolling interests	387,916	395,888
Total equity	744,595	765,601
Total liabilities and equity	$2,028,875	$2,067,836

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
Operating activities:				
Net income (loss)	$(3,622	)	$(6,090	)
Reconciliation of net income (loss) to cash provided by operating activities:				
Depreciation, amortization, and accretion	38,342		23,040	
Provision (benefit) for deferred income taxes	122		(8,168	)
Equity-based compensation expense	1,596		1,855	
Provision for doubtful accounts	242		(141	)
Excess decommissioning and abandoning costs	152		7,882	
Other non-cash charges and credits	(483	)	(3,331	)
Gain on sale of assets	(1,650	)	(102	)
Changes in operating assets and liabilities, net of assets acquired:				
Accounts receivable	32,698		20,261	
Inventories	(12,637	)	3,304	
Prepaid expenses and other current assets	773		(2,161	)
Trade accounts payable and accrued expenses	(26,310	)	13,763	
Decommissioning liabilities, net	(566	)	(13,307	)
Other	(842	)	(735	)
Net cash provided by operating activities	27,815		36,070	
Investing activities:				
Purchases of property, plant, and equipment	(49,024	)	(28,835	)
Acquisition of businesses, net of cash acquired	—		(18,337	)
Proceeds on sale of property, plant, and equipment	2,886		3,999	
Other investing activities	(211	)	(1,574	)
Net cash used in investing activities	(46,349	)	(44,747	)
Financing activities:				
Proceeds from long-term debt	51,954		11,350	
Principal payments on long-term debt	(37,329	)	(9,423	)
CCLP distributions	(9,274	)	(1,245	)
Proceeds from exercise of stock options	285		273	
Net cash provided by financing activities	5,636		955	
Effect of exchange rate changes on cash	(970	)	(730	)
(Decrease) in cash and cash equivalents	(13,868	)	(8,452	)
Cash and cash equivalents at beginning of period	48,384		38,754	
Cash and cash equivalents at end of period	$34,516		$30,302	
Supplemental cash flow information:				
Interest paid	$16,358		$429	
Income taxes paid	2,923		3,327	

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.

In 2014, and continuing into early 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 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 becoming more limited and costly. Accordingly, we have implemented strategic cost reduction measures designed to lower our cost structure in the current environment. As further discussed in Note C - Long-Term Debt and Other Obligations, as a result of the issuance and sale of our new Senior Secured Notes and additional borrowings under our bank revolving credit facility (the "Credit Agreement"), we repaid the $90 million 2008-B Senior Notes upon their maturity in April 2015. In addition, we are considering certain asset sales and financing transactions with a view of generating additional cash to reduce the amount of our outstanding borrowings under our Credit Agreement. We believe the steps taken will enhance our operating cash flows and that, with the current industry environment and activity level, we will have adequate liquidity to fund our operations and debt obligations and maintain compliance with debt covenants through March 31, 2016; however, we cannot predict how an extended period of low commodity prices will affect our operations and liquidity levels.

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 March 31, 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 March 31, 2015, and December 31, 2014, are as follows:

	March 31, 2015	December 31, 2014
	(In Thousands)	
Finished goods	$63,563	$62,188
Raw materials	3,656	5,005
Parts and supplies	53,400	51,229
Work in progress	79,216	70,722
Total inventories	$199,835	$189,144

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 March 31,	
	2015	2014
	(In Thousands)	
Number of weighted average common shares outstanding	78,907	78,306
Assumed exercise of stock awards	—	—
Average diluted shares outstanding	78,907	78,306

For the three month periods ended March 31, 2015 and 2014, the average diluted shares outstanding excludes the impact of all outstanding stock awards, as the inclusion of these shares would have been antidilutive due to the net losses recorded during the periods.

Environmental Liabilities

Environmental remediation liabilities are recorded on an undiscounted basis when environmental assessments or cleanups are probable and the costs can be reasonably estimated. Estimates of future environmental remediation expenditures often consist of a range of possible expenditure amounts, a portion of which may be in excess of amounts of liabilities recorded. In such an instance, we disclose the full range of amounts reasonably possible of being incurred. Any changes or developments in environmental remediation efforts are accounted for and disclosed each quarter as they occur. Any recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Complexities involving environmental remediation efforts can cause estimates of the associated liability to be imprecise. Factors that cause uncertainties regarding the estimation of future expenditures include, but are not limited to, the effectiveness of the anticipated work plans in achieving targeted results and changes in the desired remediation methods and outcomes as prescribed by regulatory agencies. Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of reasonably possible outcomes. Estimates developed in the early stages of remediation can vary significantly. Normally, a finite estimate of cost does not become fixed and determinable at a specific point in time. Rather, the costs associated with environmental remediation become estimable as the work is performed and the range of ultimate cost becomes more defined. It is possible that cash flows and results of operations could be materially affected by the impact of the ultimate resolution of these contingencies.

Services and Rentals Revenues and Costs

A portion of our services and rentals revenues consist of lease rental income pursuant to operating lease arrangements for compressors and other equipment assets. For the three month periods ended March 31, 2015 and 2014, the following operating lease revenues and associated costs were included in services and rentals revenues and cost of services and rentals, respectively, in the accompanying consolidated statements of operations.

	Three Months Ended March 31,	
	2015	2014
	(In Thousands)	
Rental revenue	$45,446	$2,832
Cost of rental revenue	$21,447	$1,782

Foreign Currency Translation

We have designated the euro, the British pound, the Norwegian krone, the Canadian dollar, the Brazilian real, the Argentine peso, and the Mexican peso as the functional currency for our operations in Finland and Sweden, the United Kingdom, Norway, Canada, Brazil, Argentina, and certain of our operations in Mexico, respectively. The U.S. dollar is the designated functional currency for all of our other foreign operations. The cumulative translation effects of translating the accounts from the functional currencies into the U.S. dollar at current exchange rates are included as a separate component of equity. Foreign currency exchange gains and (losses) are included in Other Expense and totaled $(0.7) million and $(0.7) million during the quarters ended March 31, 2015 and 2014, respectively.

Income Taxes

We recorded a consolidated provision for income taxes during the first quarter of 2015, despite sustaining a consolidated pretax loss during the period, compared to a benefit for income taxes during the corresponding prior year period. The first quarter 2015 pretax loss primarily relates to pretax losses generated by our domestic operations. We recorded a valuation allowance primarily on our U.S. deferred tax assets during 2014 after considering all available positive and negative evidence related to the realizability of our deferred tax assets. Included in our deferred tax assets are net operating loss carryforwards and tax credits that are available to offset future income tax liabilities in the U.S. as well as in certain foreign jurisdictions. Our assessment of the realizability of our deferred tax assets has not changed and as such, we have not recorded a benefit for our first quarter 2015 domestic pretax losses or pretax losses sustained in other foreign jurisdictions in which we have recorded a valuation allowance against the net deferred tax asset. As a result, our consolidated provision for income taxes during the first quarter of 2015 is primarily attributable to taxes in certain foreign jurisdictions generating pretax earnings.

Fair Value Measurements

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" within an entity's principal market, if any. The principal market is the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity, regardless of whether it is the market in which the entity will ultimately transact for a particular asset or liability or if a different market is potentially more advantageous. Accordingly, this exit price concept may result in a fair value that may differ from the transaction price or market price of the asset or liability.

Under generally accepted accounting principles, the fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value. Fair value measurements should maximize the use of observable inputs and minimize the use of unobservable inputs, where possible. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs may be needed to measure fair value in situations where there is little or no market activity for the asset or liability at the measurement date and are developed based on the best information available in the circumstances, which could include the reporting entity's own judgments about the assumptions market participants would utilize in pricing the asset or liability.

We utilize fair value measurements to account for certain items and account balances within our consolidated financial statements. Fair value measurements are utilized in the allocation of purchase consideration for acquisition transactions to the assets and liabilities acquired, including intangible assets and goodwill. In addition, we utilize fair value measurements in the initial recording of our decommissioning and other asset retirement obligations. Fair value measurements may also be utilized on a nonrecurring basis, such as for the impairment of long-lived assets, including goodwill. The fair value of our financial instruments, which include cash, temporary investments, accounts receivable, short-term borrowings, and long-term debt pursuant to our bank credit agreements, approximate their carrying amounts. The fair values of our long-term Senior Notes at March 31, 2015 and December 31, 2014, were approximately $285.2 million and $310.7 million, respectively, compared to a carrying amount of $305.0 million, as current rates on those dates were different than the stated interest rates on the Senior Notes. The fair values of the CCLP Senior Notes at March 31, 2015 and December 31, 2014, respectively, were approximately $308.0 million and $354.9 million compared to a face amount of approximately $350.0 million (See Note C - Long-Term Debt and Other Borrowings, for further discussion). We calculate the fair value of these Senior Notes internally, using current market conditions and average cost of debt (a level 2 fair value measurement).

The fair value of the liability for the WIT Water Transfer, LLC (acquired in January 2014 and doing business as TD Water Transfer) contingent purchase price consideration at March 31, 2015, was $0. We calculate the fair value of the liability for our contingent purchase price consideration obligation in accordance with the TD Water Transfer share purchase agreement based upon a probability weighted calculation using the actual and anticipated earnings of the acquired operations (a level 3 fair value measurement). We also utilize fair value measurements on a recurring basis in the accounting for our foreign currency forward sale derivative contracts. For these fair value measurements, we utilize the quoted value as determined by our counterparty financial institution (a level 2 fair value measurement). A summary of these fair value measurements as of March 31, 2015 and December 31, 2014, is as follows:

		Fair Value Measurements Using		
	Total as of	Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
Description	March 31, 2015	(Level 1)	(Level 2)	(Level 3)
	(In Thousands)			
Asset for foreign currency derivative contracts	$104	—	104	—

Liability for foreign currency derivative contracts	(213)	—	(213)	—
Acquisition contingent consideration liability	—	—	—	—
Net liability	$(109)			

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		Fair Value Measurements Using		
Description	Total as of Dec 31, 2014	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs	Significant Unobservable Inputs