

TETRA TECHNOLOGIES INC
Form 10-Q
November 09, 2015

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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	74-2148293
(State of incorporation)	(I.R.S. Employer Identification No.)

24955 Interstate 45 North	
The Woodlands, Texas	77380
(Address of principal executive offices)	(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 ☒ No ☐

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

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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 November 9, 2015, there were 80,230,143 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Product sales	\$124,748	\$100,021	\$359,286	\$259,644
Services and rentals	180,396	206,350	513,269	502,073
Total revenues	305,144	306,371	872,555	761,717
Cost of revenues:				
Cost of product sales	92,542	102,523	261,205	244,258
Cost of services and rentals	103,159	135,870	308,550	344,109
Depreciation, amortization, and accretion	38,909	33,234	116,319	78,281
Total cost of revenues	234,610	271,627	686,074	666,648
Gross profit	70,534	34,744	186,481	95,069
General and administrative expense	40,910	37,099	113,651	102,789
Interest expense, net	12,201	9,878	37,427	19,193
Other (income) expense, net	2,000	12,594	3,927	11,091
Income (loss) before taxes	15,423	(24,827)	31,476	(38,004)
Provision (benefit) for income taxes	4,687	(12,360)	8,997	(17,897)
Net income (loss)	10,736	(12,467)	22,479	(20,107)
(Income) loss attributable to noncontrolling interest	(981)	1,930	(2,247)	179
Net income (loss) attributable to TETRA stockholders	\$9,755	\$(10,537)	\$20,232	\$(19,928)
Basic net income (loss) per common share:				
Net income (loss) attributable to TETRA stockholders	\$0.12	\$(0.13)	\$0.26	\$(0.25)
Average shares outstanding	79,219	78,683	79,098	78,506
Diluted net income (loss) per common share:				
Net income (loss) attributable to TETRA stockholders	\$0.12	\$(0.13)	\$0.25	\$(0.25)
Average diluted shares outstanding	79,792	78,683	79,455	78,506

See Notes to Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Net income (loss)	\$10,736	\$(12,467	) \$22,479	\$(20,107)
Foreign currency translation adjustment, including taxes of \$0 and \$0 in 2015 and including taxes of \$1,198 and \$1,644 in 2014	(6,627	) (8,430	) (14,056	) (7,653)
Comprehensive income (loss)	4,109	(20,897	) 8,423	(27,760)
Comprehensive (income) loss attributable to noncontrolling interest	(981	) 1,930	(2,247	) 179	
Comprehensive income (loss) attributable to TETRA stockholders	\$3,128	\$(18,967	) \$6,176	\$(27,581)

See Notes to Consolidated Financial Statements

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

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$25,478	\$48,384
Restricted cash	11,481	8,721
Trade accounts receivable, net of allowances of \$6,800 in 2015 and \$2,485 in 2014	203,768	226,966
Deferred tax asset, net	536	392
Inventories	145,457	189,357
Assets held for sale	—	2,568
Prepaid expenses and other current assets	24,305	24,463
Total current assets	411,025	500,851
Property, plant, and equipment:		
Land and building	79,062	75,200
Machinery and equipment	1,373,469	1,292,734
Automobiles and trucks	47,307	57,035
Chemical plants	181,155	174,108
Construction in progress	6,573	21,483
Total property, plant, and equipment	1,687,566	1,620,560
Less accumulated depreciation	(581,756)	(496,368)
Net property, plant, and equipment	1,105,810	1,124,192
Other assets:		
Goodwill	292,157	293,866
Patents, trademarks and other intangible assets, net of accumulated amortization of \$48,951 in 2015 and \$39,754 in 2014	95,881	107,167
Deferred tax assets, net	1,209	1,791
Other assets	35,231	40,966
Total other assets	424,478	443,790
Total assets	\$1,941,313	\$2,068,833

See Notes to Consolidated Financial Statements

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

	September 30, 2015 (Unaudited)	December 31, 2014
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	\$56,589	\$119,240
Unearned income	31,084	70,688
Accrued liabilities	92,025	86,881
Current portion of long-term debt	90,425	90,074
Decommissioning and other asset retirement obligations	17,912	12,758
Total current liabilities	288,035	379,641
Long-term debt, net of current portion	829,049	844,961
Deferred income taxes	11,474	10,525
Decommissioning and other asset retirement obligations, net of current portion	42,064	49,983
Other liabilities	17,495	18,122
Total long-term liabilities	900,082	923,591
Commitments and contingencies		
Equity:		
TETRA stockholders' equity:		
Common stock, par value \$0.01 per share; 100,000,000 shares authorized; 82,976,740 shares issued at September 30, 2015 and 82,322,876 shares issued at	829	823
December 31, 2014		
Additional paid-in capital	247,232	241,166
Treasury stock, at cost; 2,732,259 shares held at September 30, 2015, and 2,672,930 shares held at December 31, 2014	(16,669)	(16,419)
Accumulated other comprehensive income (loss)	(40,271)	(26,215)
Retained earnings	190,591	170,358
Total TETRA stockholders' equity	381,712	369,713
Noncontrolling interests	371,484	395,888
Total equity	753,196	765,601
Total liabilities and equity	\$1,941,313	\$2,068,833

See Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2015	2014
Operating activities:		
Net income (loss)	\$22,479	\$(20,107)
Reconciliation of net income (loss) to cash provided by operating activities:		
Depreciation, amortization, and accretion	116,319	78,281
Provision (benefit) for deferred income taxes	1,743	(27,233)
Equity-based compensation expense	7,816	4,809
Provision for doubtful accounts	4,108	652
Excess decommissioning and abandoning costs	786	41,880
Amortization of deferred financing costs	2,804	2,054
Other non-cash charges and credits	(1,165)	(3,826)
Acquisition and transaction financing fees	—	9,869
Gain on sale of assets	(2,656)	(548)
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	14,428	(14,908)
Inventories	42,481	(5,127)
Prepaid expenses and other current assets	(835)	2,652
Trade accounts payable and accrued expenses	(87,908)	26,198
Decommissioning liabilities, net	(5,196)	(40,309)
Other	3,023	(2,400)
Net cash provided by operating activities	118,227	51,937
Investing activities:		
Purchases of property, plant, and equipment	(96,143)	(84,135)
Acquisition of businesses, net of cash acquired	—	(854,031)
Proceeds on sale of property, plant, and equipment	4,902	5,047
Other investing activities	(3,706)	(362)
Net cash used in investing activities	(94,947)	(933,481)
Financing activities:		
Proceeds from long-term debt	292,996	760,036
Principal payments on long-term debt	(308,945)	(207,384)
CCLP distributions	(28,289)	(3,808)
Proceeds from exercise of stock options	164	1,147
Proceeds from issuance of Compressco Partners' common units, net of underwriters' discount	—	359,205
Excess tax benefit from equity compensation	(246)	—
Other financing activities	(250)	(27,905)
Net cash provided by (used in) financing activities	(44,570)	881,291
Effect of exchange rate changes on cash	(1,616)	(2,286)
Decrease in cash and cash equivalents	(22,906)	(2,539)
Cash and cash equivalents at beginning of period	48,384	38,754
Cash and cash equivalents at end of period	\$25,478	\$36,215
Supplemental cash flow information:		
Interest paid	\$31,399	\$9,614

Income taxes paid	6,475	9,147
See Notes to Consolidated Financial Statements		

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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 noncontrolling interest in our consolidated financial statements. Our interests in oil and gas properties are proportionately consolidated. All intercompany accounts and transactions have been eliminated in consolidation. 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. Operating results for the period ended September 30, 2015 are not necessarily indicative of results that may be expected for the twelve months ended December 31, 2015.

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. These financial statements should be read in connection with the financial statements for the year ended December 31, 2014, and notes thereto included in our Annual Report on Form 10-K, which we filed with the SEC on March 2, 2015.

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 late-2015, significant decreases in oil and natural gas commodity prices lowered the capital expenditure and operating plans of many of our customers, creating 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. As a result of the steps taken to improve operating cash flows, 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 September 30, 2016. In addition, as further discussed in Note C - Long-Term Debt and Other Borrowings, on November 5, 2015, we entered into a Note Purchase Agreement (the "2015 Senior Note Purchase Agreement") with

GSO Tetra Holdings LP, an unrelated third party. Pursuant to the 2015 Senior Note Purchase Agreement, we agreed to issue and sell \$125.0 million in aggregate principal amount of our 11.0% Senior Notes due November 5, 2022 (the “Series 2015 Senior Notes”). In addition, on November 5, 2015, we announced the commencement of a tender offer (the “Tender Offer”) to purchase for cash up to \$25.0 million aggregate principal amount of the outstanding Series 2010-A Senior Notes and Series 2010-B Senior Notes (collectively, the “2010 Senior Notes”). Also on November 5, 2015, we entered into an amendment to the Note Purchase Agreement, conditioned upon the closing and funding of the issuance of the Series 2015 Senior Notes, that provides for the extension of the maturity date of our \$50.0 million Senior Secured Notes from April 1, 2017 to

April 1, 2019. Immediately after closing and funding, we are required to apply a portion of the proceeds from the sale of the Series 2015 Senior Notes to repay all of the indebtedness for borrowed money outstanding under our Credit Agreement. Thereafter, we are to apply any remaining portion of the proceeds, together with other funds (to the extent necessary) to (i) pay the purchase price for 2010 Senior Notes accepted for purchase pursuant to the Tender Offer (defined above), (ii) prepay in full all amounts owed in respect of the outstanding Series 2006-A Senior Notes, due April 30, 2016 and (iii) pay fees and expenses associated with the transactions contemplated under the 2015 Senior Note Purchase Agreement. Following the completion of these transactions, we will have repaid and extended the maturity dates of a significant amount of TETRA's total long-term debt. In addition, we are considering certain additional financing transactions with a view of generating additional cash to reduce the amount of our outstanding borrowings under our Credit Agreement, repay or refinance additional amounts of our senior notes, and generate additional liquidity.

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 September 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 September 30, 2015, and December 31, 2014, are as follows:

	September 30, 2015	December 31, 2014
	(In Thousands)	
Finished goods	\$59,261	\$62,188
Raw materials	3,528	5,005
Parts and supplies	42,031	51,229
Work in progress	40,637	70,935
Total inventories		