TETRA TECHNOLOGIES INC
Form 10-Q
May 10, 2018

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, 2018

[ ] 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 [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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]
Emerging growth company [ ]	

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

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

As of May 9, 2018, there were 125,569,741 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, 2018	2017
Revenues:		
Product sales	$75,953	$67,978
Services	123,428	91,431
Total revenues	199,381	159,409
Cost of revenues:		
Cost of product sales	60,214	49,582
Cost of services	84,743	63,649
Depreciation, amortization, and accretion	26,441	26,524
Total cost of revenues	171,398	139,755
Gross profit	27,983	19,654
General and administrative expense	30,803	26,751
Interest expense, net	14,973	13,767
Warrants fair value adjustment	(1,994)	(5,976)
CCLP Series A Preferred Units fair value adjustment	1,358	1,631
Litigation arbitration award income	—	(12,816)
Other expense, net	2,776	461
Loss before taxes and discontinued operations	(19,933)	(4,164)
Provision for income taxes	1,124	81
Loss before discontinued operations	(21,057)	(4,245)
Discontinued operations:		
Loss from discontinued operations (including 2018 loss on disposal of $31.5 million), net of taxes	(41,706)	(7,007)
Net loss	(62,763)	(11,252)
Loss attributable to noncontrolling interest	9,115	8,789
Loss attributable to TETRA stockholders	$(53,648)	$(2,463)
Basic net income (loss) per common share:		
Income (loss) before discontinued operations attributable to TETRA stockholders	$(0.10)	$0.04
Loss from discontinued operations attributable to TETRA stockholders	$(0.36)	$(0.06)
Net loss attributable to TETRA stockholders	$(0.46)	$(0.02)
Average shares outstanding	117,598	114,197
Diluted net income (loss) per common share:		
Income (loss) before discontinued operations attributable to TETRA stockholders	$(0.10)	$0.04
Loss from discontinued operations attributable to TETRA stockholders	$(0.36)	$(0.06)
Net loss attributable to TETRA stockholders	$(0.46)	$(0.02)
Average diluted shares outstanding	117,598	114,304

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2018	2017
Net loss	$(62,763)	$(11,252)
Foreign currency translation adjustment	1,283	2,193
Comprehensive loss	(61,480)	(9,059)
Comprehensive loss attributable to noncontrolling interest	9,500	8,648
Comprehensive loss attributable to TETRA stockholders	$(51,980)	$(411)

See Notes to Consolidated Financial Statements

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

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 104,113	$ 26,128
Restricted cash	8,978	261
Trade accounts receivable, net of allowances of $1,073 in 2018 and $1,286 in 2017	175,262	144,051
Inventories	127,925	115,438
Assets of discontinued operations	7,907	121,134
Prepaid expenses and other current assets	22,618	17,597
Total current assets	446,803	424,609
Property, plant, and equipment:		
Land and building	78,940	78,559
Machinery and equipment	1,195,458	1,167,680
Automobiles and trucks	36,392	34,744
Chemical plants	189,173	186,790
Construction in progress	37,930	31,566
Total property, plant, and equipment	1,537,893	1,499,339
Less accumulated depreciation	(713,125)	(689,907)
Net property, plant, and equipment	824,768	809,432
Other assets:		
Goodwill	21,856	6,636
Patents, trademarks and other intangible assets, net of accumulated amortization of $72,946 in 2018 and $71,114 in 2017	88,134	47,405
Deferred tax assets, net	10	10
Notes receivable	7,462	44
Other assets	19,229	20,478
Total other assets	136,691	74,573
Total assets	$ 1,408,262	$ 1,308,614

See Notes to Consolidated Financial Statements

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

	March 31, 2018 (Unaudited)	December 31, 2017
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	$60,135	$70,847
Unearned income	38,168	18,701
Accrued liabilities	45,171	58,478
Liabilities of discontinued operations	14,287	71,874
Total current liabilities	157,761	219,900
Long-term debt, net	823,565	629,855
Deferred income taxes	4,040	4,404
Asset retirement obligations, net of current portion	11,929	11,738
CCLP Series A Preferred Units	54,214	61,436
Warrants liability	11,207	13,202
Other liabilities	20,085	15,518
Total long-term liabilities	925,040	736,153
Commitments and contingencies		
Equity:		
TETRA stockholders' equity:		
Common stock, par value $0.01 per share; 250,000,000 shares authorized at March 31, 2018 and December 31, 2017; 128,212,198 shares issued at March 31, 2018 and 118,515,797 shares issued at December 31, 2017	1,282	1,185
Additional paid-in capital	455,046	425,648
Treasury stock, at cost; 2,683,245 shares held at March 31, 2018, and 2,638,093 shares held at December 31, 2017	(18,821)	(18,651)
Accumulated other comprehensive income (loss)	(42,099)	(43,767)
Retained earnings (deficit)	(209,983)	(156,335)
Total TETRA stockholders' equity	185,425	208,080
Noncontrolling interests	140,036	144,481
Total equity	325,461	352,561
Total liabilities and equity	$1,408,262	$1,308,614

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2018	2017
Operating activities:		
Net loss	$(62,763)	$(11,252)
Reconciliation of net loss to cash provided by operating activities:		
Depreciation, amortization, and accretion	28,509	29,478
Provision (benefit) for deferred income taxes	(61)	(6)
Equity-based compensation expense	876	2,469
Provision for doubtful accounts	453	772
Non-cash loss on disposition of business	32,369	—
Amortization of deferred financing costs	1,224	1,091
CCLP Series A Preferred offering costs	—	37
CCLP Series A Preferred accrued paid in kind distributions	1,523	1,955
CCLP Series A Preferred fair value adjustment	1,358	1,631
Warrants fair value adjustment	(1,995)	(5,976)
Expense for unamortized finance costs and other non-cash charges and credits	3,668	(532)
Gain on sale of assets	90	(83)
Changes in operating assets and liabilities:		
Accounts receivable	6,584	(10,909)
Inventories	(13,467)	(10,627)
Prepaid expenses and other current assets	(4,311)	(527)
Trade accounts payable and accrued expenses	(24,586)	(16,919)
Decommissioning liabilities	—	(474)
Other	(732)	(666)
Net cash used in operating activities	(31,261)	(20,538)
Investing activities:		
Purchases of property, plant, and equipment, net	(28,892)	(5,060)
Acquisition of businesses, net of cash acquired	(42,002)	—
Proceeds from disposal of business	3,121	—
Proceeds on sale of property, plant, and equipment	76	248
Other investing activities	146	196
Net cash used in investing activities	(67,551)	(4,616)
Financing activities:		
Proceeds from long-term debt	474,550	74,550
Principal payments on long-term debt	(278,150)	(59,150)
CCLP distributions	(4,358)	(7,248)
Tax remittances on equity based compensation	(293)	—
Debt issuance costs and other financing activities	(6,139)	(119)
Net cash provided by financing activities	185,610	8,033
Effect of exchange rate changes on cash	(96)	112
Increase (decrease) in cash and cash equivalents	86,702	(17,009)
Cash and cash equivalents and restricted cash at beginning of period	26,389	36,531
Cash and cash equivalents and restricted cash at end of period	$113,091	$19,522

Supplemental cash flow information:		
Interest paid	$17,710	$14,395
Income taxes paid	1,331	1,929

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 and offshore rig cooling services, and compression services and equipment. We were incorporated in Delaware in 1981. Following the acquisition and disposition transactions that closed during the three month period ended March 31, 2018, we reorganized our reporting segments and are now composed of three divisions – Completion Fluids & Products, Water & Flowback Services, and Compression. 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.

Our consolidated financial statements include the accounts of our wholly owned subsidiaries. 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 March 31, 2018 are not necessarily indicative of results that may be expected for the twelve months ended December 31, 2018.

We consolidate the financial statements of CSI Compressco LP and its subsidiaries ("CCLP") as part of our Compression Division, as we determined that CCLP is a variable interest entity and we are the primary beneficiary. We control the financial interests of CCLP and have the ability to direct the activities of CCLP that most significantly impact its economic performance through our ownership of its general partner. The share of CCLP net assets and earnings that is not owned by us is presented as noncontrolling interest in our consolidated financial statements. Our cash flows from our investment in CCLP are limited to the quarterly distributions we receive on our CCLP common units and general partner interest (including incentive distribution rights) and the amounts collected for services we perform on behalf of CCLP, as TETRA's capital structure and CCLP's capital structure are separate, and do not include cross default provisions, cross collateralization provisions, or cross guarantees.

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, 2017, and notes thereto included in our Annual Report on Form 10-K, which we filed with the SEC on March 5, 2018.

We have reviewed our financial forecasts as of May 10, 2018 for the subsequent twelve month period, which consider the impact of the current distribution levels from CCLP. Based on our financial forecasts, which reflect certain operating and other business assumptions that we believe to be reasonable as of May 10, 2018, we believe that we will have adequate liquidity, earnings, and operating cash flows to fund our operations and debt obligations and maintain compliance with our debt covenants through May 10, 2019.

In March 2018, CCLP closed an offering of CCLP senior secured notes in the aggregate amount of $350.0 million, and a portion of the proceeds were used to repay and terminate CCLP's bank revolving credit facility (as amended, the "CCLP Credit Agreement"). (See Note D - Long-Term Debt and Other Borrowings.) Based on its financial forecasts that reflect the current level of distributions and certain operating and other business assumptions that CCLP believes to be reasonable as of May 10, 2018, CCLP believes that it will have adequate liquidity, earnings, and operating cash flows to fund its operations and debt obligations and maintain compliance with its debt covenants through May 10, 2019.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management 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, expenses, and impairments during the reporting period. Actual results could differ from those estimates, and such differences could be material.

Reclassifications

Certain previously reported financial information has been reclassified to conform to the current period's presentation. For a discussion of the reclassification of the financial presentation of our Offshore Division as discontinued operations, see Note C - Discontinued Operations.

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 as of March 31, 2018 consists of cash used to secure outstanding letters of credit of our Compression Division.

Inventories

Inventories are stated at the lower of cost or net realizable value. Except for work in progress inventory discussed below, cost is determined using the weighted average method. Components of inventories as of March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018	December 31, 2017
	(In Thousands)	
Finished goods	$67,283	$ 66,377
Raw materials	3,692	4,027
Parts and supplies	36,584	33,632
Work in progress	20,366	11,402
Total inventories	$127,925	$ 115,438

Finished goods inventories include newly manufactured clear brine fluids as well as used brines that are repurchased from certain customers for recycling. 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. The cost of work in progress is determined using the specific identification method. We write down the value of inventory by an amount equal to the difference between its cost and its estimated net 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,	
	2018	2017
	(In Thousands)	
Number of weighted average common shares outstanding	117,598	114,197
Assumed exercise of equity awards and warrants	—	107

Average diluted shares outstanding	117,598	114,304

For the three month period ended March 31, 2018, the average diluted shares outstanding excludes the impact of all outstanding equity awards and warrants, as the inclusion of these shares would have been anti-dilutive due to the net losses recorded during the periods. In addition, for the three month periods ended March 31, 2018 and March 31, 2017, the calculation of diluted earnings per common share excludes the impact of the CCLP

Preferred Units, as the inclusion of the impact from conversion of the CCLP Preferred Units into CCLP common units would have been anti-dilutive.

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, respectively, 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. The U.S. dollar is the designated functional currency for all of our other foreign operations. The cumulative translation effects of translating the applicable 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 (income) expense, net and totaled $0.9 million and $(0.6) million during the three month periods ended March 31, 2018 and March 31, 2017, respectively.

Income Taxes

Our consolidated provision for income taxes during the first three months of 2017 and 2018 is primarily attributable to taxes in certain foreign jurisdictions and Texas gross margin taxes. Our consolidated effective tax rate for the three month period ended March 31, 2018 of negative 5.6% was primarily the result of losses generated in entities for which no related tax benefit has been recorded. The losses generated by these entities do not result in tax benefits due to offsetting valuation allowances being recorded against the related net deferred tax assets. We establish a valuation allowance to reduce the deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. 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.

The Tax Cuts and Jobs Act (the “Act”) was enacted on December 22, 2017. At March 31, 2018 and December 31, 2017, we had not completed our accounting for the tax effects of enactment of the Act; however, in certain cases, as described below, we made reasonable estimates of the effects and recorded provisional amounts. We will continue to make and refine our calculations as additional analysis is completed. We recognized an income tax expense of $54.1 million in the fourth quarter of 2017 associated with the impact of the Act in our 2017 filing. This income tax expense was fully offset by a decrease in the valuation allowance previously recorded on our net deferred tax assets. As such, the Act resulted in no net tax expense in the fourth quarter of 2017. We have considered in our estimated annual effective tax rate for 2018, the impact of the statutory changes enacted by the Act, including reasonable estimates of those provisions effective for the 2018 tax year. Our provisional estimate on Global Intangible Low Taxed Income (“GILTI”), Foreign Derived Intangible Income (“FDII”), Base Erosion and Anti-Abuse Tax (“BEAT”), and IRC Section 163(j) interest limitation do not impact our effective tax rate for the three months ended March 31, 2018. The accounting for the tax effects of the Act will be completed in 2018 as provided by the U.S. Securities and Exchange Commission’s SAB No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act.

Asset Retirement Obligations

We operate facilities in various U.S. and foreign locations that are used in the manufacture, storage, and sale of our products, inventories, and equipment. These facilities are a combination of owned and leased assets. The values of our asset retirement obligations for these properties were $11.9 million and $11.7 million as of March 31, 2018 and December 31, 2017, respectively. We are required to take certain actions in connection with the retirement of these assets. Asset retirement obligations are recorded in accordance with FASB ASC 410, "Asset Retirement and Environmental Obligations," whereby the estimated fair value of a liability for asset retirement obligations is recognized in the period in which it is incurred and in which a reasonable estimate can be made. Such estimates are based on relevant assumptions that we believe are reasonable. We have reviewed our obligations in this regard in detail and estimated the cost of these actions. The associated asset retirement costs are capitalized as part of the carrying amount of these long-lived assets and are depreciated on a straight-line basis over the life of the assets.

The changes in the values of our asset retirement obligations during the three month period ended March 31, 2018, are as follows:

	Three Months Ended March 31, 2018 (In Thousands)
Beginning balance for the period, as reported	