TETRA TECHNOLOGIES INC
Form 10-Q
May 09, 2013

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, 2013

[ ] 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, 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, 2013, there were 78,269,874 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,	
	2013	2012
Revenues:		
Product sales	$71,538	$67,229
Services and rentals	137,021	113,567
Total revenues	208,559	180,796
Cost of revenues:		
Cost of product sales	55,738	50,490
Cost of services and rentals	94,464	80,578
Depreciation, amortization, and accretion	19,671	17,333
Total cost of revenues	169,873	148,401
Gross profit	38,686	32,395
General and administrative expense	33,554	30,891
Interest expense, net	4,200	4,151
Other (income) expense, net	(2,279)	(4,399)
Income before taxes and discontinued operations	3,211	1,752
Provision for income taxes	1,111	604
Income before discontinued operations	2,100	1,148
Income (loss) from discontinued operations, net of taxes	–	(1)
Net income	2,100	1,147
Net (income) loss attributable to noncontrolling interest	(797)	(466)
Net income attributable to TETRA stockholders	$1,303	$681
Basic net income per common share:		
Income before discontinued operations attributable to TETRA stockholders	$0.02	$0.01

Income (loss) from discontinued operations attributable to TETRA stockholders	–	(0.00)
Net income attributable to TETRA stockholders	$0.02	$0.01
Average shares outstanding	77,671	77,069
Diluted net income per common share:		
Income before discontinued operations attributable to TETRA stockholders	$0.02	$0.01
Income (loss) from discontinued operations attributable to TETRA stockholders	–	(0.00)
Net income attributable to TETRA stockholders	$0.02	$0.01
Average diluted shares outstanding	78,395	78,281

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,	
	2013	2012
Net income	$2,100	$1,147
Foreign currency translation adjustment, including taxes of ($264) in 2013 and taxes of ($334) in 2012	(5,936)	3,922
Comprehensive income (loss)	(3,836)	5,069
Less: comprehensive income attributable to noncontrolling interest	(797)	(466)
Comprehensive income (loss) attributable to TETRA stockholders	$(4,633)	$4,603

See Notes to Consolidated Financial Statement

TETRA Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$28,583	$74,048
Restricted cash	5,568	5,571
Trade accounts receivable, net of allowances for doubtful accounts of $1,229 in 2013 and $1,085 in 2012	180,355	176,352
Deferred tax asset	23,351	29,789
Inventories	99,732	103,041
Assets held for sale	12,018	12,009
Prepaid expenses and other current assets	31,792	34,299
Total current assets	381,399	435,109
Property, plant, and equipment		
Land and building	41,413	41,153
Machinery and equipment	602,273	589,725
Automobiles and trucks	59,023	57,708
Chemical plants	164,264	161,565
Construction in progress	46,496	40,452
Total property, plant, and equipment	913,469	890,603
Less accumulated depreciation	(353,426)	(337,889)
Net property, plant, and equipment	560,043	552,714
Other assets:		
Goodwill	186,982	189,604
Patents, trademarks and other intangible assets, net of accumulated amortization of $28,186 in 2013 and $27,044 in 2012	34,332	36,735
Deferred tax assets	626	594
Other assets	36,655	47,062
Total other assets	258,595	273,995
Total assets	$1,200,037	$1,261,818

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands, Except Share Amounts)

	March 31, 2013 (Unaudited)	December 31, 2012
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	$61,404	$67,453
Accrued liabilities	76,990	73,254
Current portion of long-term debt	252	35,441
Decommissioning and other asset retirement obligations, net	61,714	80,667
Total current liabilities	200,360	256,815
Long-term debt, net	332,121	331,268
Deferred income taxes	35,317	41,910
Decommissioning and other asset retirement obligations, net	17,000	14,254
Other liabilities	24,568	24,263
Total long-term liabilities	409,006	411,695
Commitments and contingencies		
Equity:		
TETRA Stockholders' equity:		
Common stock, par value $0.01 per share; 100,000,000 shares authorized; 80,591,679 shares issued at March 31, 2013, and 80,446,169 shares issued at December 31, 2012	806	804
Additional paid-in capital	229,065	226,954
Treasury stock, at cost; 2,337,133 shares held at March 31, 2013 and 2,334,137 shares held at December 31, 2012	(15,051)	(15,027)
Accumulated other comprehensive income (loss)	(7,430)	(1,494)
Retained earnings	341,187	339,883
Total TETRA stockholders' equity	548,577	551,120
Noncontrolling interests	42,094	42,188
Total equity	590,671	593,308
Total liabilities and equity	$1,200,037	$1,261,818

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Operating Activities:		
Net Income	$2,100	$1,147
Reconciliation of net income to cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion	19,671	17,333
Provision (benefit) for deferred income taxes	(204)	(1,200)
Equity-based compensation expense	1,854	2,355
Provision for doubtful accounts	224	90
Gain on sale of assets	(61)	(3,967)
Other non-cash charges and credits	7,388	778
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	7,234	(16,232)
Inventories	2,444	(3,226)
Prepaid expenses and other current assets	4,426	1,772
Trade accounts payable and accrued expenses	(4,362)	4,659
Decommissioning liabilities, net	(25,658)	(15,724)
Other	(8)	599
Net cash provided by (used in) operating activities	15,048	(11,616)
Investing Activities:		
Purchases of property, plant, and equipment	(26,412)	(25,764)
Acquisition of businesses, net	–	(64,528)
Proceeds on sale of property, plant, and equipment	490	12,336
Other Investing activities	187	3,688
Net cash provided by (used in) investing activities	(25,735)	(74,268)
Financing Activities:		
Proceeds from long-term debt	4,250	1,952
Payments of long-term debt	(38,189)	–
Excess tax benefit from equity compensation	–	178
Compressco Partners' distributions	(1,191)	(1,065)
Proceeds from exercise of stock options	795	469
Net cash provided by (used in) financing activities	(34,335)	1,534
Effect of exchange rate changes on cash	(443)	1,337

Increase (decrease) in cash and cash equivalents	(45,465)	(83,013)
Cash and cash equivalents at beginning of period	74,048	204,412
Cash and cash equivalents at end of period	$28,583	$121,399
Supplemental cash flow information:		
Interest paid	$439	$–
Income taxes paid	1,995	2,862

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, frac water management, after-frac flow back, production well testing, offshore rig cooling, compression based production enhancement, 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 three divisions – Fluids, Production Enhancement, 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. 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.

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, 2012.

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.

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, 2013, 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 and consist primarily of finished goods. Cost is determined using the weighted average method. Significant components of inventories as of March 31, 2013, and December 31, 2012, are as follows:

	March 31, 2013	December 31, 2012
	(In Thousands)	
Finished goods	$68,746	$72,312
Raw materials	5,716	5,396
Parts and supplies	24,258	24,497
Work in progress	1,012	836
Total inventories	$99,732	$103,041

Finished goods inventories include, in addition to newly manufactured clear brine fluids, recycled brines that are repurchased from certain of our customers. Recycled brines are recorded at cost, using the weighted average method.

Net Income 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 per common and common equivalent share:

	Three Months Ended March 31,	
	2013	2012
	(In Thousands)	
Number of weighted average common shares outstanding	77,671	77,069
Assumed exercise of stock awards	724	1,212
Average diluted shares outstanding	78,395	78,281

In applying the treasury stock method to determine the dilutive effect of the stock options outstanding during the first three months of 2013, we used the average market price of our common stock of $9.01. For the three months ended March 31, 2013 and 2012, the average diluted shares outstanding excludes the impact of 2,434,093 and 2,369,632 outstanding stock options, respectively, that have exercise prices in excess of the average market price, as the inclusion of these shares would have been antidilutive.

Environmental Liabilities

Environmental expenditures that result in additions to property and equipment are capitalized, while other environmental expenditures are expensed. 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.

Repair Costs and Insurance Recoveries

During December 2010, we initiated legal proceedings against one of Maritech's insurance underwriters that had disputed that certain hurricane damage related costs incurred or to be incurred qualified as covered costs pursuant to Maritech's windstorm insurance policies. In February 2013, we entered into a settlement agreement with the underwriter whereby we received $7.6 million, a portion of which was credited to operating expenses during the three months ended March 31, 2013.

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 may include cash, temporary investments, accounts receivable, short-term borrowings, and long-term debt pursuant to our bank credit agreement, approximate their carrying amounts. The fair values of our long-term Senior Notes at March 31, 2013, and December 31, 2012, were approximately $330.4 million and $327.4 million, respectively, compared to a carrying amount of $305.0 million, as current rates on those dates were more favorable than the stated interest rates on the Senior Notes. We calculate the fair value of our Senior Notes internally, using current market conditions and average cost of debt (a level 2 fair value measurement). The fair values of the liability for the OPTIMA contingent purchase price consideration obligation at March 31, 2013, and December 31, 2012, were approximately $2.5 million and $2.7 million, respectively. We calculate the fair value of the liability for our contingent purchase price consideration obligation in accordance with the OPTIMA share purchase agreement based upon the actual and anticipated earnings of our OPTIMA operations (a level 3 fair value measurement).

New Accounting Pronouncements

In June 2011, the FASB published ASU 2011-05, “Comprehensive Income (Topic 220), Presentation of Comprehensive Income” (ASU 2011-05), with the stated objective of improving the comparability, consistency, and transparency of financial reporting and increasing the prominence of items reported in other comprehensive income. As part of ASU 2011-05, the FASB eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity. The ASU 2011-05 amendments require that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The ASU 2011-05 amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and the amendments are applied retrospectively. In December 2011, with the issuance of ASU 2011-12, “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,” the FASB announced that it has deferred certain aspects of ASU 2011-05. In February 2013, the

FASB issued ASU 2013-2, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,” with the stated objective of improving the reporting of reclassifications out of accumulated other comprehensive income. The amendments in ASU 2013-2 are effective during interim and annual periods beginning after December 31, 2012. The adoption of ASU 2011-05, 2011-12 and 2013-2 regarding comprehensive income have not had a significant impact on the accounting or disclosures in our financial statements.

In December 2011, the FASB published ASU 2011-11, “Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities” (ASU 2011-11), which requires an entity to disclose the nature of its rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The objective of ASU 2011-11 is to make financial statements that are prepared under U.S. generally accepted accounting principles more comparable to those prepared under International Financial Reporting Standards. The new disclosures will give financial statement users information about both gross and net exposures. In January 2013, the FASB published ASU 2013-01, “Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” (ASU 2013-01), with the stated objective of clarifying the scope of offsetting disclosures and address any unintended consequences of ASU 2011-11. ASU 2011-11 and ASU 2013-01 are effective for interim and annual reporting period beginning after January 1, 2013 and will be applied on a retrospective basis. The adoption of ASU 2011-11 and ASU 2013-01 did not have a material impact on our financial condition, results of operations, or liquidity.

NOTE B – ACQUISITIONS AND DISPOSITIONS

Acquisition of Optima

On March 9, 2012, we acquired 100% of the outstanding common stock of Optima Solutions Holdings Limited (OPTIMA), a provider of rig cooling services and associated products that suppress heat generated by high- rate flaring of hydrocarbons during offshore well test operations. The acquisition of OPTIMA, which is based in Aberdeen, Scotland, enables our Production Testing segment to provide its customers with a broader range of production testing and associated services and expands the segment's presence in many significant global markets. Including the impact of additional working capital received and other adjustments to the purchase price, we paid 41.2 million pounds sterling (approximately $65.0 million equivalent) in cash as the purchase price for the OPTIMA stock at closing and may pay up to an additional 4 million pounds sterling in contingent purchase price consideration, depending on a defined measure of earnings for OPTIMA over each of the two years subsequent to the closing.

We allocated the purchase price to the fair value of the assets and liabilities acquired, which consisted of approximately $3.0 million of net working capital; $16.8 million of property, plant, and equipment; $20.4 million of certain intangible assets; $7.2 million of deferred and other tax liabilities and $3.5 million of other liabilities associated with the contingent purchase price consideration obligation; and $35.6 million of nondeductible goodwill. The fair value of the obligation to pay the contingent purchase price consideration was calculated based on the anticipated earnings for OPTIMA over each of the next two twelve month periods subsequent to the closing and could increase (up to 4 million pounds sterling) or decrease (to zero) depending on OPTIMA's actual and expected earnings going forward. Increases or decreases in the value of the anticipated contingent purchase price consideration obligation due to changes in the amounts paid or expected to be paid will be charged or credited to earnings in the period in which such changes occur. Subsequent to the acquisition, the liability associated with the contingent purchase price consideration obligation was adjusted downward by approximately $1.4 million, and this amount was credited to earnings. The $35.6 million of goodwill recorded to our Production Testing segment as a result of the OPTIMA acquisition is supported by the expected strategic benefits discussed above to be generated from the acquisition. For the three month period ended March 31, 2012, our revenues, depreciation and amortization, and pretax earnings included $1.5 million, $0.4 million, and $0.5 million, respectively, associated with the acquired operations of OPTIMA after the closing in March 2012. Transaction costs associated with the acquisition of approximately $1.3 million were also charged to general and administrative expense during the three month period ended March 31, 2012.

Acquisition of ERS

On April 23, 2012, we acquired the assets and operations of Eastern Reservoir Services (ERS), a division of Patterson-UTI Energy, Inc. for a cash purchase price of $42.5 million. ERS is a provider of production testing and after-frac flow back services to oil and gas operators in the Appalachian and U.S. Rocky Mountain regions, and the acquisition represented a strategic geographic expansion of our Production Testing segment operations, allowing it to serve customers in additional basins in the U.S.

We allocated the purchase price to the fair value of the assets acquired, which consisted of approximately $18.5 million of property, plant, and equipment, approximately $3.4 million of certain intangible assets, and approximately $20.6 million of nondeductible goodwill. The $20.6 million of goodwill recorded to our Production Testing segment as a result of the ERS acquisition is supported by the strategic benefits discussed above to be generated from the acquisition.

Acquisition of Greywolf

On July 31, 2012, we acquired the assets and operations of Greywolf Production Systems Inc. and GPS Ltd. (together, Greywolf) for a cash purchase price of approximately $55.5 million. Greywolf is a provider of production testing and after-frac flow back services to oil and gas operators in western Canada and the U.S. Williston Basin (including the Bakken formation) and the Niobrara Shale formation of the U.S. Rocky Mountain region. This acquisition represented an additional strategic geographic expansion of our Production Testing segment operations.

We allocated the purchase price to the fair value of the assets acquired, which consisted of approximately $17.7 million of property, plant, and equipment, approximately $3.5 million of certain intangible assets, and approximately $34.3 million of nondeductible goodwill. The $34.3 million of goodwill recorded to our Production

Testing segment as a result of the Greywolf acquisition is supported by the strategic benefits discussed above to be generated from the acquisition.

Pro Forma Financial Information

The pro forma information presented below has been prepared to give effect to the acquisitions of OPTIMA, ERS, and Greywolf as if they had occurred at the beginning of the period presented and include the impact from the allocation of the purchase price on depreciation and amortization. The pro forma information is presented for illustrative purposes only and is based on estimates and assumptions we deemed appropriate. The following pro forma information is not necessarily indicative of the historical results that would have been achieved if the acquisition transactions had occurred in the past, and our operating results may have been different from those reflected in the pro forma information below. Therefore, the pro forma information should not be relied upon as an indication of the operating results that we would have achieved if the transactions had occurred at the beginning of the periods presented or the future results that we will achieve after the acquisitions.

	Three Months Ended March 31, 2012 (In Thousands, Except Per Share Amounts)
Revenues	$ 208,263
Depreciation, depletion, amortization, and accretion	$ 19,518
Gross Profit	$ 41,173
Income before discontinued operations	$ 5,952
Net income	$ 5,951
Net income attributable to TETRA stockholders	$ 5,485
Per share information:	
Income before discontinued operations attributable to TETRA stockholders	
Basic	$ 0.07
Diluted	$ 0.07
Net income attributable to TETRA stockholders	
Basic	$ 0.07
Diluted	$ 0.07

NOTE C – LONG-TERM DEBT AND OTHER BORROWINGS

Long-term debt consists of the following:

		March 31, 2013	December 31, 2012
		(In Thousands)	
	Scheduled Maturity		
Bank revolving line of credit facility	June 26, 2015	$12,821	$51,218
Compressco Partners' bank credit facility	June 24, 2015	14,300	10,050
5.90% Senior Notes, Series 2006-A	April 30, 2016	90,000	90,000
6.30% Senior Notes, Series 2008-A	April 30, 2013	35,000	35,000
6.56% Senior Notes, Series 2008-B	April 30, 2015	90,000	90,000
5.09% Senior Notes, Series 2010-A	December 15, 2017	65,000	65,000
5.67% Senior Notes, Series 2010-B	December 15, 2020	25,000	25,000
European bank credit facility		–	–
Other		252	441
Total debt		332,373	366,709
Less current portion		(252)	(35,441)
Total long-term debt		$332,121	$331,268

On April 29, 2013, we issued $35.0 million in aggregate principal amount of Series 2013 Senior Notes pursuant to a Note Purchase Agreement. The Series 2013 Senior Notes bear interest at the fixed rate of 4.0% and mature on April 29, 2020. On April 30, 2013, we utilized the proceeds from the issuance to repay the 2008-A Senior Notes. The Series 2013 Senior Notes were sold in the United States to accredited investors pursuant to an exemption from the Securities Act of 1933. Interest on the Series 2013 Senior Notes is due semiannually on April 29 and October 29 of each year.

NOTE D – DECOMMISSIONING AND OTHER ASSET RETIREMENT OBLIGATIONS

The large majority of our asset retirement obligations consists of the future well abandonment and decommissioning costs for offshore oil and gas properties and platforms owned by our Maritech subsidiary, including the decommissioning and debris removal costs associated with one remaining offshore platform previously destroyed by hurricanes. The amount of decommissioning liabilities recorded by Maritech is reduced by amounts allocable to joint interest owners. The changes in the asset retirement obligations during the three month period ended March 31, 2013, are as follows:

	Three Months Ended March 31, 2013 (In Thousands)
Beginning balance for the period, as reported	$ 94,921
Activity in the period:	
Accretion of liability	165
Revisions in estimated cash flows	9,288
Settlement of retirement obligations	(25,660)
Ending balance as of March 31	$ 78,714

Revisions in estimated cash flows during the first quarter of 2013 resulted primarily from additional work incurred and anticipated to be required on Maritech’s offshore oil and gas properties.

NOTE E –MARKET RISKS AND HEDGE CONTRACTS

We are exposed to financial and market risks that affect our businesses. We have currency exchange rate risk exposure related to transactions denominated in a foreign currency as well as to investments in certain of our international operations. As a result of our variable rate bank credit facilities, we face market risk exposure related to changes in applicable interest rates. We have concentrations of credit risk as a result of trade receivables owed to us by companies in the energy industry. Our financial risk management activities may at times involve, among other measures, the use of derivative financial instruments, such as swap and collar agreements, to hedge the impact of market price risk exposures. For hedge contracts qualifying for hedge accounting treatment, we formally document the relationships between hedging instruments and hedged items, as well as our risk management objectives, our strategies for undertaking various hedge transactions, and our methods for assessing and testing correlation and hedge ineffectiveness. All hedging instruments are linked to the hedged asset, liability, firm commitment, or forecasted transaction. We also assess, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in these hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

In July 2012, we borrowed 10.0 million euros (approximately $12.8 million equivalent as of March 31, 2013) and designated the borrowing as a hedge of our net investment in our European operations. Changes in the foreign currency exchange rate have resulted in a cumulative change to the cumulative translation adjustment account of $3.1 million, net of taxes, at March 31, 2013, with no ineffectiveness recorded.

NOTE F – EQUITY

Changes in equity for the three month periods ended March 31, 2013 and 2012, are as follows:

	Three Months Ended March 31,					
	2013			2012		
	TETRA	Non-controlling Interest	Total	TETRA	Non-controlling Interest	Total
	(In Thousands)					
Beginning balance for the period	$551,120	$42,188	$593,308	$527,146	$41,942	$569,088
Net income	1,303	797	2,100	681	466	1,147
Foreign currency translation adjustment, including taxes of ($264) in 2013 and taxes of ($334) in 2012	(5,936)	–	(5,936)	3,922	–	3,922
Comprehensive Income (loss)	(4,633)	797	(3,836)	4,603	466	5,069
Exercise of common stock options	782	–	782	478	–	478
Distributions to public unitholders	–	(1,191)	(1,191)	–	(1,209)	(1,209)
Equity-based compensation	1,532	322	1,854	2,083	54	2,137
Treasury stock and other	12	(22)	(10)	(10)	38	28
Tax benefit upon exercise of stock options	(236)	–	(236)	178	–	178
Ending balance as of March 31	$548,577	$42,094	$590,671	$534,478	$41,291	$575,769

Activity within the foreign currency translation adjustment account during the periods includes no reclassifications to net income.

NOTE G – COMMITMENTS AND CONTINGENCIES

Litigation

We are named defendants in several lawsuits and respondents in certain governmental proceedings arising in the ordinary course of business. While the outcome of lawsuits or other proceedings against us cannot be predicted with certainty, management does not consider it reasonably possible that a loss resulting from such lawsuits or other proceedings in excess of any amounts accrued has been incurred that is expected to have a material adverse impact on our financial condition, results of operations, or liquidity.

Environmental

One of our subsidiaries, TETRA Micronutrients, Inc. (TMI), previously owned and operated a production facility located in Fairbury, Nebraska. TMI is subject to an Administrative Order on Consent issued to American Microtrace, Inc. (n/k/a/ TETRA Micronutrients, Inc.) in the proceeding styled In the Matter of American Microtrace Corporation, EPA I.D. No. NED00610550, Respondent, Docket No. VII-98-H-0016, dated September 25, 1998 (the Consent Order), with regard to the Fairbury facility. TMI is liable for future remediation costs and ongoing environmental monitoring at the Fairbury facility under the Consent Order; however, the current owner of the Fairbury facility is responsible for costs associated with the closure of that facility. While the outcome cannot be predicted with certainty, management does not consider it reasonably possible that a loss in excess of any amounts accrued has been incurred or is expected to have a material adverse impact on our financial condition, results of operations, or liquidity.

NOTE H – INDUSTRY SEGMENTS

We manage our operations through five operating segments: Fluids, Production Testing, Compressco, Offshore Services, and Maritech.

Our Fluids Division manufactures and markets clear brine fluids, additives, and associated products and services to the oil and gas industry for use in well drilling, completion, and workover operations in the United States and in certain countries in Latin America, Europe, Asia, the Middle East, and Africa. The Division also markets liquid and dry calcium chloride products manufactured at its production facilities or purchased from third-party suppliers to a variety of markets outside the energy industry. The Fluids Division also provides domestic onshore oil and gas operators with comprehensive frac water management services.

Our Production Enhancement Division consists of two operating segments: Production Testing and Compressco. The Production Testing segment provides after-frac flow back, production well testing, offshore rig cooling, and other associated services in many of the major oil and gas basins in the United States, Mexico, Canada, as well as in certain basins in certain regions in South America, Africa, Europe, the Middle East, and Australia.

The Compressco segment provides compression-based production enhancement services, which are used in both conventional wellhead compression applications and unconventional compression applications, and in certain circumstances, well monitoring and sand separation services. Compressco provides these services throughout many of the onshore oil and gas producing regions of the United States, as well as certain basins in Mexico, Canada, and certain countries in South America, Eastern Europe, and the Asia-Pacific region. Beginning June 20, 2011, following the initial public offering of Compressco Partners, L.P. (Compressco Partners), we allocate and charge certain corporate and divisional direct and indirect administrative costs to Compressco Partners.

Our Offshore Division consists of two operating segments: Offshore Services and Maritech. The Offshore Services segment provides (1) downhole and subsea oil and gas well plugging and abandonment services, (2) decommissioning and certain construction services utilizing heavy lift barges and various cutting technologies with regard to offshore oil and gas production platforms and pipelines, and (3) conventional and saturated air diving services.

The Maritech segment is an oil and gas production operation. During 2011 and the first quarter of 2012, Maritech sold substantially all of its oil and gas producing property interests. Maritech's operations consist primarily of the ongoing abandonment and decommissioning associated with its remaining offshore wells, facilities, and production platforms. Maritech intends to acquire a significant portion of these services from the Offshore Division's Offshore Services segment.

We generally evaluate the performance of and allocate resources to our segments based on profit or loss from their operations before income taxes and nonrecurring charges, return on investment, and other criteria. Transfers between segments and geographic areas are priced at the estimated fair value of the products or services as negotiated between the operating units. “Corporate overhead” includes corporate general and administrative expenses, corporate depreciation and amortization, interest income and expense, and other income and expense.

Summarized financial information concerning the business segments from continuing operations is as follows:

	Three Months Ended March 31,	
	2013	2012
	(In Thousands)	
Revenues from external customers		
Product sales		
Fluids Division	$69,161	$61,532
Production Enhancement Division		
Production Testing	–	–
Compressco	1,088	1,162
Total Production Enhancement Division	1,088	1,162
Offshore Division		
Offshore Services	129	1,995
Maritech	1,160	2,540
Total Offshore Division	1,289	4,535
Consolidated	$71,538	$67,229

	Three Months Ended March 31,	
	2013	2012
	(In Thousands)	
Services and rentals		
Fluids Division	$24,831	$17,776
Production Enhancement Division		
Production Testing	54,607	38,283
Compressco	29,737	21,520
Intersegment eliminations	(280)	–
Total Production Enhancement Division	84,064	59,803
Offshore Division		
Offshore Services	37,520	43,100
Maritech	–	75
Intersegment eliminations	(9,394)	(7,312)
Total Offshore Division	28,126	35,863
Corporate overhead	–	125
Consolidated	$137,021	$113,567
Intersegment revenues		
Fluids Division	$48	$25
Production Enhancement Division		
Production Testing	–	–
Compressco	–	–
Total Production Enhancement Division	–	–
Offshore Division		
Offshore Services	–	–
Maritech	–	–
Intersegment eliminations	–	–
Total Offshore Division	–	–
Intersegment eliminations	(48)	(25)
Consolidated	$–	$–
Total revenues		
Fluids Division	$94,040	$79,333
Production Enhancement Division		
Production Testing	54,607	38,283
Compressco	30,825	22,682
Intersegment eliminations	(280)	–
Total Production Enhancement Division	85,152	60,965
Offshore Division		
Offshore Services	37,649	45,095
Maritech	1,160	2,615
Intersegment eliminations	(9,394)	(7,312)
Total Offshore Division	29,415	40,398
Corporate overhead	–	125
Intersegment eliminations	(48)	(25)

Consolidated	$208,559	$180,796

	Three Months Ended March 31, 2013		2012	
	(In Thousands)			
Income (loss) before taxes and discontinued operations				
Fluids Division	$17,005		$11,465	
Production Enhancement Division				
Production Testing	6,298		5,677	
Compressco	5,225		3,510	
Total Production Enhancement Division	11,523		9,187	
Offshore Division				
Offshore Services	(5,203)		(1,033)	
Maritech	(4,908)		(2,081)	
Intersegment eliminations	–		–	
Total Offshore Division	(10,111)		(3,114)	
Corporate overhead	(15,206)	(1)	(15,786)	(1)
Consolidated	$3,211		$1,752	

	March 31, 2013	2012
	(In Thousands)	
Total assets		
Fluids Division	$391,229	$382,321
Production Enhancement Division		
Production Testing	321,788	215,026
Compressco	231,840	206,932
Total Production Enhancement Division	553,628	421,958
Offshore Division		
Offshore Services	180,505	208,108
Maritech	63,992	60,711
Intersegment eliminations	–	–
Total Offshore Division	244,497	268,819
Corporate overhead	10,683	146,148
Consolidated	$1,200,037	$1,219,246

(1) Amounts reflected include the following general corporate expenses:

	Three Months Ended March 31, 2013	2012
	(In Thousands)	
General and administrative expense	$9,911	$9,912

Depreciation and amortization	581	869
Interest expense	4,152	4,191
Other general corporate (income) expense, net	562	814
Total	$15,206	$15,786

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Business Overview

An increase in consolidated revenues and gross profit for the quarter ended March 31, 2013, as compared to the prior year period, reflects the growth of our Fluids, Production Testing, and Compressco segments compared to the quarter ended March 31, 2012. Our Fluids Division growth in revenue and profitability was primarily due to increased offshore demand for its clear brine fluids (CBF) products. U.S. Gulf of Mexico drilling and completion activity, which increased steadily during 2012, continued at increased levels during the first quarter compared to the prior year period. In addition, the growth of our onshore frac water management business has also contributed increased revenues and profitability. Our Production Testing segment revenues increased compared to the prior year period, primarily reflecting the impact of our 2012 acquisitions, which generated approximately $22.8 million of increased revenues during the current year period. These acquisitions strategically expanded the geographic markets served and our services offered by our Production Testing segment. The impact of the increased revenues during the quarter from these acquired businesses was largely offset by the associated operating and administrative costs of the acquired businesses, as well as by decreased activity levels compared to the prior year period in certain other domestic markets in which the segment operates. Our Compressco segment also reported increased revenues and profitability compared to the prior year period, primarily due to increased activity in Latin America. The continuation or increase of current activity levels in Compressco's Latin America operations is dependent, however, on the resolution of specific uncertainties that could affect operations, including resolution of customer budget re-evaluations and the renewal of certain customer contracts. Offsetting a portion of the increases from these segments, our Offshore Services segment reported decreased revenues compared to the prior year period, primarily due to decreased activity levels for its dive services and heavy lift businesses. These businesses were negatively affected by weather delays and continuing market challenges during the quarter. Our Maritech segment also reported decreased profitability due to increased excess decommissioning costs, despite the positive impact of an insurance-related litigation settlement recorded during the current year period.

We continue to utilize our operating cash flows to extinguish Maritech's remaining decommissioning liabilities, fund capital expenditure activity, and further strengthen our consolidated balance sheet. During the three months ended March 31, 2013, we further reduced Maritech's remaining decommissioning liabilities to approximately $71.1 million, as compared to $87.4 million at December 31, 2012, the majority of which is expected be extinguished later during 2013. Approximately $26.4 million was expended during the current year quarter on capital expenditure activity for several of our existing businesses, and we continue to evaluate opportunities to further expand certain of our businesses through acquisitions. In addition, during the three months ended March 31, 2013, we repaid approximately $38.0 million of long-term debt under our revolving credit facility. In April 2013, we issued $35.0 million of new Series 2013 Senior Note debt, the proceeds of which were used to repay the maturity of the Series 2008-B Senior Note obligation. As of May 9, 2013, pursuant to our revolving credit facility, we have available borrowing capacity of approximately $254.7 million to supplement our operating cash flows and to fund future growth opportunities. Cash flows from operating activities increased compared to the prior year period, primarily due to the impact of efforts to improve accounts receivable collections. To further enhance our operating cash flows, we have taken steps during the first four months of 2013 to reduce operating and administrative expenses for several of our businesses, including a reduction in overall headcount. Together with the specific cost reduction steps taken by our Offshore Services segment in late 2012, and excluding the impact of severance costs associated with headcount reductions, these cost reduction efforts are expected to result in further increases in operating cash flows and profitability beginning in the second quarter of 2013.

Critical Accounting Policies

There have been no material changes or developments in the evaluation of the accounting estimates and the underlying assumptions or methodologies pertaining to our Critical Accounting Policies and Estimates disclosed in our Form 10-K for the year ended December 31, 2012. In preparing our consolidated financial statements, we make assumptions, estimates, and judgments that affect the amounts reported. We periodically evaluate these estimates and judgments, including those related to potential impairments of long-lived assets (including goodwill), the collectability of accounts receivable, and the cost of future abandonment and decommissioning obligations. Our estimates are based on historical experience and on future expectations that we believe are reasonable. The fair values of large portions of our total assets and liabilities are measured using significant unobservable inputs. The combination of these factors forms the basis for judgments made about the carrying values of assets and liabilities that are not readily apparent from other sources. These judgments and estimates may change as new events occur, as new information is acquired, and as changes in our operating environments are encountered. Actual results are likely to differ from our current estimates, and those differences may be material.

Results of Operations

Three months ended March 31, 2013 compared with three months ended March 31, 2012.

Consolidated Comparisons

	Three Months Ended March 31,		Period to Period Change	
	2013	2012	2013 vs 2012	% Change
	(In Thousands, Except Percentages)			
Revenues	$208,559	$180,796	$27,763	15.4%
Gross profit	38,686	32,395	6,291	19.4%
Gross profit as a percentage of revenue	18.5%	17.9%		
General and administrative expense	33,554	30,891	2,663	8.6%
General and administrative expense as a percentage of revenue	16.1%	17.1%		
Interest expense, net	4,200	4,151	49	1.2%
Other (income) expense, net	(2,279)	(4,399)	2,120	
Income before taxes and discontinued operations	3,211	1,752	1,459	83.3%
Income before taxes and discontinued operations as a percentage of revenue	1.5%	1.0%		
Provision for income taxes	1,111	604	507	83.9%
Income before discontinued operations	2,100	1,148	952	82.9%
Income (loss) from discontinued operations, net of taxes	–	(1)	1	
Net income	2,100	1,147	953	83.1%
Net income attributable to noncontrolling interest	(797)	(466)	(331)	
Net income attributable to TETRA stockholders	$1,303	$681	$622	91.3%