

TETRA TECHNOLOGIES INC
Form 10-Q
August 09, 2013

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 JUNE 30, 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 ☒ 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 ☐

Edgar Filing: TETRA TECHNOLOGIES INC - Form 10-Q

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

Large accelerated filer ☒ [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 August 8, 2013, there were 78,724,179 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Product sales	\$79,350	\$75,782	\$150,888	\$143,011
Services and rentals	141,751	159,127	278,772	272,694
Total revenues	221,101	234,909	429,660	415,705
Cost of revenues:				
Cost of product sales	80,135	62,516	135,873	113,006
Cost of services and rentals	89,504	100,064	183,968	180,642
Depreciation, amortization, and accretion	20,076	19,221	39,747	36,554
Total cost of revenues	189,715	181,801	359,588	330,202
Gross profit	31,386	53,108	70,072	85,503
General and administrative expense	34,365	31,466	67,919	62,357
Interest expense, net	4,178	4,084	8,378	8,235
Other (income) expense, net	(2,762)	) (882)	) (5,041)	) (5,281)
Income (loss) before taxes and discontinued operations	(4,395)	) 18,440	(1,184)	) 20,192
Provision (benefit) for income taxes	(1,887)	) 6,262	(776)	) 6,866
Income (loss) before discontinued operations	(2,508)	) 12,178	(408)	) 13,326
Income (loss) from discontinued operations, net of taxes	—	3	—	2
Net income (loss)	(2,508)	) 12,181	(408)	) 13,328
Net (income) attributable to noncontrolling interest	(423)	) (607)	) (1,220)	) (1,073)
Net income (loss) attributable to TETRA stockholders	\$(2,931)	) \$11,574	\$(1,628)	) \$12,255
Basic net income (loss) per common share:				
Income (loss) before discontinued operations attributable to TETRA stockholders	\$(0.04)	) \$0.15	\$(0.02)	) \$0.16
Income (loss) from discontinued operations attributable to TETRA stockholders	—	—	—	—
Net income (loss) attributable to TETRA stockholders	\$(0.04)	) \$0.15	\$(0.02)	) \$0.16
Average shares outstanding	77,896	77,278	77,784	77,174
Diluted net income (loss) per common share:				
Income (loss) before discontinued operations attributable to TETRA stockholders	\$(0.04)	) \$0.15	\$(0.02)	) \$0.16

Edgar Filing: TETRA TECHNOLOGIES INC - Form 10-Q

Income (loss) from discontinued operations attributable to TETRA stockholders	—	—	—	—
Net income (loss) attributable to TETRA stockholders	\$(0.04	) \$0.15	\$(0.02	) \$0.16
Average diluted shares outstanding	77,896	78,998	77,784	78,640

See Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss)	\$(2,508	) \$12,181	\$(408	) \$13,328
Foreign currency translation adjustment, including taxes of \$810 and \$546 in 2013 and taxes of \$1,185 and \$851 in 2012	(2,786	) (6,942	) (8,722	) (3,020
Comprehensive income (loss)	(5,294	) 5,239	(9,130	) 10,308
Less: comprehensive income attributable to noncontrolling interest	(423	) (607	) (1,220	) (1,073
Comprehensive income (loss) attributable to TETRA stockholders	\$(5,717	) \$4,632	\$(10,350	) \$9,235

See Notes to Consolidated Financial Statements

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

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$30,512	\$74,048
Restricted cash	9,066	5,571
Trade accounts receivable, net of allowances for doubtful accounts of \$1,065 in 2013 and \$1,085 in 2012	171,448	176,352
Deferred tax asset	13,981	29,789
Inventories	93,157	103,041
Assets held for sale	14,546	12,009
Prepaid expenses and other current assets	22,412	34,299
Total current assets	355,122	435,109
Property, plant, and equipment:		
Land and building	41,703	41,153
Machinery and equipment	633,417	589,725
Automobiles and trucks	58,856	57,708
Chemical plants	166,514	161,565
Construction in progress	30,462	40,452
Total property, plant, and equipment	930,952	890,603
Less accumulated depreciation	(368,594)	(337,889)
Net property, plant, and equipment	562,358	552,714
Other assets:		
Goodwill	186,159	189,604
Patents, trademarks and other intangible assets, net of accumulated amortization of \$29,323 in 2013 and \$27,044 in 2012	32,867	36,735
Deferred tax assets	1,347	594
Other assets	33,699	47,062
Total other assets	254,072	273,995
Total assets	\$1,171,552	\$1,261,818

See Notes to Consolidated Financial Statements

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

	June 30, 2013 (Unaudited)	December 31, 2012
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	\$66,572	\$67,453
Accrued liabilities	74,122	73,254
Current portion of long-term debt	63	35,441
Decommissioning and other asset retirement obligations, net	40,814	80,667
Total current liabilities	181,571	256,815
Long-term debt, net	345,957	331,268
Deferred income taxes	21,961	41,910
Decommissioning and other asset retirement obligations, net	16,516	14,254
Other liabilities	19,804	24,263
Total long-term liabilities	404,238	411,695
Commitments and contingencies		
Equity:		
TETRA stockholders' equity:		
Common stock, par value \$0.01 per share; 100,000,000 shares authorized; 81,110,805 shares issued at June 30, 2013, and 80,446,169 shares issued at December 31, 2012	811	804
Additional paid-in capital	230,512	226,954
Treasury stock, at cost; 2,401,984 shares held at June 30, 2013 and 2,334,137 shares held at December 31, 2012	(15,293)	(15,027)
Accumulated other comprehensive income (loss)	(10,216)	(1,494)
Retained earnings	338,256	339,883
Total TETRA stockholders' equity	544,070	551,120
Noncontrolling interests	41,673	42,188
Total equity	585,743	593,308
Total liabilities and equity	\$1,171,552	\$1,261,818

See Notes to Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2013	2012
Operating activities:		
Net income (loss)	\$(408	) \$13,328
Reconciliation of net income (loss) to cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion	39,747	36,554
Provision (benefit) for deferred income taxes	(4,768	) (547
Equity-based compensation expense	3,624	4,253
Provision for doubtful accounts	333	(304
Gain on sale of assets	(13	) (3,263
Excess decommissioning/abandoning costs	32,877	9,939
Other non-cash charges and credits	(5,262	) (3,035
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	19,716	(38,703
Inventories	9,248	320
Prepaid expenses and other current assets	14,690	5,402
Trade accounts payable and accrued expenses	(8,952	) 8,989
Decommissioning liabilities, net	(70,788	) (42,582
Other	317	1,623
Net cash provided by (used in) operating activities	30,361	(8,026
Investing activities:		
Purchases of property, plant, and equipment	(51,535	) (55,884
Acquisition of businesses, net	—	(107,469
Proceeds on sale of property, plant, and equipment	837	12,440
Other investing activities	258	3,538
Net cash provided by (used in) investing activities	(50,440	) (147,375
Financing activities:		
Proceeds from long-term debt	65,445	1,947
Payments of long-term debt	(85,928	) (1,947
Compressco Partners' distributions	(2,393	) (2,300
Proceeds from exercise of stock options	757	612
Excess tax benefit from equity compensation	—	197
Other financing activities	(307) —
Net cash provided by (used in) financing activities	(22,426	) (1,491
Effect of exchange rate changes on cash	(1,031	) 1,692
Increase (decrease) in cash and cash equivalents	(43,536	) (155,200
Cash and cash equivalents at beginning of period	74,048	204,412
Cash and cash equivalents at end of period	\$30,512	\$49,212
Supplemental cash flow information:		
Interest paid	\$9,616	\$9,073
Income taxes paid	4,217	4,190

See Notes to Consolidated Financial Statements

5

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 June 30, 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 June 30, 2013, and December 31, 2012, are as follows:

June 30, 2013	December 31, 2012
(In Thousands)	

Edgar Filing: TETRA TECHNOLOGIES INC - Form 10-Q

Finished goods	\$64,874	\$72,312
Raw materials	4,717	5,396
Parts and supplies	22,825	24,497
Work in progress	741	836
Total inventories	\$93,157	\$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 June 30, 2013		Six Months Ended June 30, 2013	
	2012		2012	
	(In Thousands)			
Number of weighted average common shares outstanding	77,896	77,278	77,784	77,174
Assumed exercise of stock awards	—	1,720	—	1,466
Average diluted shares outstanding	77,896	78,998	77,784	78,640

In applying the treasury stock method to determine the dilutive effect of the stock options outstanding during the first six months of 2013, we used the average market price of our common stock of \$9.38. For the three and six months ended June 30, 2013, the average diluted shares outstanding excludes the impact of all outstanding stock options, as the inclusion of these shares would have been antidilutive due to the net loss recorded during the period. For the three and six months ended June 30, 2012, the average diluted shares outstanding excludes the impact of 3,219,457 and 2,794,545 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 six months ended June 30, 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 June 30, 2013, and December 31, 2012, were approximately \$316.9 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 June 30, 2013, and December 31, 2012, were approximately \$2.2 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 Financial Accounting Standards Board (FASB) published Accounting Standards Update (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.

In July 2013, the FASB published ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" (ASU 2013-11). The amendments in this ASU provide guidance on presentation of unrecognized tax benefits and are expected to reduce diversity in practice and better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in this ASU are effective prospectively for interim and annual periods beginning after December 15, 2013, with early adoption and retrospective application permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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; \$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 \$1.6 million (approximately \$0.5 million of which was adjusted during the six months ended June 30, 2013), 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 six month period ended June 30, 2012, our revenues, depreciation and amortization, and pretax earnings included \$8.6 million, \$1.7 million, and \$2.2 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 six month period ended June 30, 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. For the six month period ended June 30, 2012, our revenues, depreciation and amortization, and pretax earnings included \$7.0 million, \$0.7 million, and \$2.5 million, respectively, associated with the acquired operations of ERS after the closing in April 2012. In addition to the above impact on our results of operations, transaction costs associated with the ERS acquisition of approximately \$0.3 million were also charged to general and administrative expense during the six month period ended June 30, 2012.

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.

Edgar Filing: TETRA TECHNOLOGIES INC - Form 10-Q

	Three Months Ended June 30, 2012 (In Thousands, Except Per Share Amounts)	Six Months Ended June 30, 2012
Revenues	\$247,612	\$455,875
Depreciation, depletion, amortization, and accretion	\$19,868	\$39,386
Gross profit	\$55,949	\$97,122
Income before discontinued operations	\$13,773	\$19,725
Net income	\$13,776	\$19,727
Net income attributable to TETRA stockholders	\$13,169	\$18,654
Per share information:		
Income before discontinued operations attributable to TETRA stockholders		
Basic	\$0.17	\$0.24
Diluted	\$0.17	\$0.24
Net income attributable to TETRA stockholders		
Basic	\$0.17	\$0.24
Diluted	\$0.17	\$0.24

NOTE C – LONG-TERM DEBT AND OTHER BORROWINGS

Long-term debt consists of the following:

		June 30, 2013 (In Thousands)	December 31, 2012
	Scheduled Maturity		
Bank revolving line of credit facility	October 29, 2015	\$19,463	\$51,218
Compressco Partners' bank credit facility	June 24, 2015	21,494	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
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
4.00% Senior Notes, Series 2013	April 29, 2020	35,000	—
European bank credit facility		—	—
Other		63	441
Total debt		346,020	366,709
Less current portion		(63	) (35,441
Total long-term debt		\$345,957	\$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. Similar to each other series of our outstanding senior notes, the Series 2013 Senior Notes contain customary covenants and restrictions and require us to maintain certain financial ratios, including a minimum level of

net worth and a ratio between our long-term debt balance and a defined measure of operating cash flow over a twelve month period.

On May 14, 2013, Compressco Partners, L.P. (Compressco Partners) entered into an amendment of its bank credit facility whereby, among other modifications, the maximum credit commitment under the credit facility was increased from \$20.0 million to \$40.0 million.

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. We also 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. We are required to take certain actions in connection with the retirement of these assets. The value of our asset retirement obligations for non-Maritech properties was approximately \$7.8 million and \$7.5 million as of June 30, 2013 and December 31, 2012, respectively. The changes in consolidated asset retirement obligations during the three and six month periods ended June 30, 2013, are as follows:

	Three Months Ended June 30, 2013 (In Thousands)	Six Months Ended June 30, 2013
Beginning balance for the period, as reported	78,714	\$94,921
Activity in the period:		
Accretion of liability	166	331
Revisions in estimated cash flows	23,578	32,866
Settlement of retirement obligations	(45,128)	) (70,788)
Ending balance as of June 30	57,330	\$57,330

Revisions in estimated cash flows during the first six months 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 \$13.0 million equivalent as of June 30, 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 \$0.6 million, net of taxes, at June 30, 2013, including a change of \$0.1 million, net of taxes, during the six months ended

June 30, 2013, with no ineffectiveness recorded.

NOTE F – EQUITY

Changes in equity for the three and six month periods ended June 30, 2013 and 2012, are as follows:

	Three Months Ended June 30, 2013			2012			
	TETRA	Non- controlling Interest	Total	TETRA	Non- controlling Interest	Total	
	(In Thousands)						
Beginning balance for the period	\$548,577	\$42,094	\$590,671	\$534,478	\$41,291	\$575,769	
Net income (loss)	(2,931	) 423	(2,508	) 11,574	607	12,181
Foreign currency translation adjustment, including taxes of \$810 in 2013 and taxes of \$1,185 in 2012	(2,786) —	(2,786) (6,942) —	(6,942)
Comprehensive income (loss)	(5,717	) 423	(5,294	) 4,632	607	5,239
Exercise of common stock options	207	—	207	280	—	280	
Distributions to public unitholders	—	(1,202) (1,202) —	(1,066) (1,066)
Equity-based compensation	1,398	371	1,769	1,521	377	1,898	
Treasury stock and other	(242) (13) (255) (136) 120	(16)
Tax benefit upon exercise of stock options	(153) —	(153) 19	—	19	
Ending balance as of June 30	\$544,070	\$41,673	\$585,743	\$540,794	\$41,329	\$582,123	
	Six Months Ended June 30, 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 (loss)	(1,628	) 1,220	(408	) 12,255	1,073	13,328
Foreign currency translation adjustment, including taxes of \$546 in 2013 and taxes of \$851 in 2012	(8,722) —	(8,722) (3,020) —	(3,020)
Comprehensive income (loss)	(10,350	) 1,220	(9,130	) 9,235	1,073	10,308
Exercise of common stock options	989	—	989	758	—	758	
	—	(2,393) (2,393) —	(2,275) (2,275)

Distributions to public
unitholders

Equity-based compensation	2,930	693	3,623	3,604	649	4,253
Treasury stock and other	(230)	(35)	(265)	(146)	(60)	(206)
Tax benefit upon exercise of stock options	(389)	—	(389)	197	—	197
Ending balance as of June 30	\$544,070	\$41,673	\$585,743	\$540,794	\$41,329	\$582,123

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, and 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, 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:

14

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	2012		2012	
	(In Thousands)			
Revenues from external customers				
Product sales				
Fluids Division	\$74,741	\$72,739	\$143,902	\$134,271
Production Enhancement Division				
Production Testing	—	—	—	—
Compressco	1,341	1,057	2,429	2,219
Total Production Enhancement Division	1,341	1,057	2,429	2,219
Offshore Division				
Offshore Services	1,584	882	1,713	2,877
Maritech	1,684	1,104	2,844	3,644
Total Offshore Division	3,268	1,986	4,557	6,521
Consolidated	\$79,350	\$75,782	\$150,888	\$143,011
Services and rentals				
Fluids Division	\$25,493	\$17,006	\$50,324	\$34,782
Production Enhancement Division				
Production Testing	47,433	50,329	102,040	88,612
Compressco	26,640	24,201	56,377	45,721
Intersegment eliminations	(293	) —	(573) —
Total Production Enhancement Division	73,780	74,530	157,844	134,333
Offshore Division				
Offshore Services	62,871	79,794	100,391	122,894
Maritech	—	75	—	150
Intersegment eliminations	(20,393	) (12,403	) (29,787	) (19,715
Total Offshore Division	42,478	67,466	70,604	103,329
Corporate overhead	—	125	—	250
Consolidated	\$141,751	\$159,127	\$278,772	\$272,694
Intersegment revenues				
Fluids Division	\$(8	) \$102	\$40	\$127
Production Enhancement Division				
Production Testing	—	—	—	—
Compressco	—	—	—	—
Total Production Enhancement Division	—	—	—	—
Offshore Division				
Offshore Services	—	—	—	—
Maritech	—	—	—	—
Intersegment eliminations	—	—	—	—
Total Offshore Division	—	—	—	—
Intersegment eliminations	8	(102	) (40	) (127
Consolidated	\$—	\$—	\$—	\$—

	Three Months Ended June 30, 2013		2012	Six Months Ended June 30, 2013		2012			
	(In Thousands)								
Total revenues									
Fluids Division	\$ 100,226		\$ 89,847	\$ 194,266		\$ 169,180			
Production Enhancement Division									
Production Testing	47,433		50,329	102,040		88,612			
Compressco	27,981		25,258	58,806		47,940			
Intersegment eliminations	(293	)	—	(573)	—		
Total Production Enhancement Division	75,121		75,587	160,273		136,552			
Offshore Division									
Offshore Services	64,455		80,676	102,104		125,771			
Maritech	1,684		1,179	2,844		3,794			
Intersegment eliminations	(20,393)	(12,403)	(29,787)	(19,715)	
Total Offshore Division	45,746		69,452	75,161		109,850			
Corporate overhead	—		125	—		250			
Intersegment eliminations	8		(102)	(40)	(127)	
Consolidated	\$221,101		\$234,909	\$429,660		\$415,705			
	Three Months Ended June 30, 2013		2012	Six Months Ended June 30, 2013		2012			
	(In Thousands)								
Income (loss) before taxes and discontinued operations									
Fluids Division	\$ 17,847		\$ 13,959	\$ 34,852		\$ 25,424			
Production Enhancement Division									
Production Testing	4,317		11,170	10,615		16,847			
Compressco	3,161		4,645	8,386		8,155			
Total Production Enhancement Division	7,478		15,815	19,001		25,002			
Offshore Division									
Offshore Services	9,688		11,764	4,485		10,731			
Maritech	(23,743)	(8,626)	(28,651)	(10,707)	
Intersegment eliminations	—		—	—		—			
Total Offshore Division	(14,055	)	3,138	(24,166	)	24	
Corporate overhead	(15,665)	(14,472)	(30,871)	(30,258)	(1)
Consolidated	\$(4,395	)	\$18,440	\$(1,184	)	\$20,192	

	June 30, 2013 (In Thousands)	2012
Total assets		
Fluids Division	\$389,580	\$354,680
Production Enhancement Division		
Production Testing	320,801	266,991
Compressco	233,288	211,276
Total Production Enhancement Division	554,089	478,267
Offshore Division		
Offshore Services	181,752	225,722
Maritech	25,640	48,939
Intersegment eliminations	—	—
Total Offshore Division	207,392	274,661
Corporate overhead	20,491	91,162
Consolidated	\$1,171,552	\$1,198,770

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

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	2012		2012	
	(In Thousands)			
General and administrative expense	\$10,364	\$9,246	\$20,275	\$19,158
Depreciation and amortization	579	864	1,160	1,733
Interest expense	4,090	4,045	8,242	8,236
Other general corporate (income) expense, net	632	317	1,194	1,131
Total	\$15,665	\$14,472	\$30,871	\$30,258

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

Business Overview

Despite the continuing growth of our Fluids Division, consolidated revenues decreased during the second quarter of 2013 as compared to the prior year period, primarily due to decreased revenues by our Offshore Services and Production Testing segments. Our Offshore Services segment revenues were adversely affected by continuing market challenges in the U.S. Gulf of Mexico market, particularly affecting its heavy lift and dive services operations, and unseasonal weather delays. Our Production Testing segment revenues also decreased compared to the prior year period, despite the acquisitions completed during 2012, primarily due to lower activity in Mexico and decreased domestic natural gas drilling and completion activity. Our Compressco segment reported increased revenues from domestic and certain international markets, but along with our Production Testing segment, it experienced a decrease in demand in Mexico due to budgetary re-evaluations by its primary customer in Mexico. Profitability for our Production Testing, Compressco, and Offshore Services segments were each lower compared to the prior year period, primarily due to the decreased activity, which more than offset cost reduction efforts by each of these segments. The most significant factor for our decrease in profitability, however, was from our Maritech segment, which incurred excess decommissioning costs associated with the ongoing efforts to extinguish its remaining asset retirement obligations. Maritech expects to complete the remaining asset retirement work on its operated properties during 2013. These decreases in profitability were partially offset by the strong performance of our Fluids Division, which continued to report growth from its onshore frac water management business and strong demand for its clear brine fluids (CBF) products in the U.S. Gulf of Mexico. Recent and ongoing cost reduction efforts by each of our businesses are expected to result in improved operating efficiencies and reduced administrative costs going forward.

We continue to prioritize the extinguishment of Maritech's remaining asset retirement obligations, and as of June 30, 2013, the remaining liability has been reduced to approximately \$49.5 million. Funded by increased operating cash flows generated during the first six months of 2013, we expended approximately \$70.8 million on these efforts. Despite the significant cash spent to extinguish Maritech's remaining asset retirement obligations, cash provided from operating activities was approximately \$30.4 million during the first six months of 2013, compared to \$8.0 million of cash flows used in operating activities during the prior year period. This increase was primarily due to the impact of efforts that resulted in improved cash collections. The cost reduction efforts discussed above are also anticipated to further improve operating cash flows in future periods. We spent approximately \$50.4 million on investing activities during the first six months of 2013, primarily on capital expenditures for several of our existing businesses. To fund potential growth, as of August 8, 2013, we have approximately \$252.0 million available under our revolving credit facility. Compressco Partners, L.P. (Compressco Partners) amended its bank revolving credit facility during the second quarter of 2013, increasing its maximum credit commitment to \$40.0 million, and it has availability of approximately \$18.3 million as of June 30, 2013. During the second quarter of 2013, we issued \$35.0 million of new 4.0% Series 2013 Senior Notes, the proceeds of which were used to repay the maturity of the 6.3% Series 2008-A Senior Notes that matured during the period. In addition to the ongoing capital expenditure activity, we continue to evaluate opportunities to further expand certain of our businesses through internal growth and acquisitions, consistent with our growth plan.

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 June 30, 2013 compared with three months ended June 30, 2012.

Consolidated Comparisons

	Three Months Ended June 30,		Period to Period Change			
	2013	2012	2013 vs 2012	% Change		
	(In Thousands, Except Percentages)					
Revenues	\$221,101	\$234,909	\$(13,808)	(5.9)		%
Gross profit	31,386	53,108	(21,722)	(40.9)		%
Gross profit as a percentage of revenue	14.2	% 22.6	%			
General and administrative expense	34,365	31,466	2,899	9.2		%
General and administrative expense as a percentage of revenue	15.5	% 13.4	%			
Interest expense, net	4,178	4,084	94	2.3		%
Other (income) expense, net	(2,762)	(882)	(1,880)	213.2		%
Income (loss) before taxes and discontinued operations	(4,395)	18,440	(22,835)	(123.8)		%
Income (loss) before taxes and discontinued operations as a percentage of revenue	(2.0)	% 7.8	%			
Provision (benefit) for income taxes	(1,887)	6,262	(8,149)	(130.1)		%
Income (loss) before discontinued operations	(2,508)	12,178	(14,686)	(120.6)		%
Income (loss) from discontinued operations, net of taxes	—	3	(3)			
Net income (loss)	(2,508)	12,181	(14,689)	(120.6)		%
Net (income) attributable to noncontrolling interest	(423)	(607)	184			
Net income (loss) attributable to TETRA stockholders	\$(2,931)	\$11,574	\$(14,505)	(125.3)		%

Consolidated revenues for the quarter ended June 30, 2013, decreased compared to the prior year period due to decreased revenues for the Offshore Services and Production Testing segments, both of which were adversely affected by decreases in activity during the period. The decrease in Offshore Services revenues was primarily due to decreased activity in its heavy lift and dive services operations. Decreased production testing activity in Mexico and in several of the domestic markets served, along with a decrease in our Optima Solutions Holdings Limited (OPTIMA) offshore rig cooling activity, more than offset the positive impact of the 2012 acquisitions of Eastern Reservoir Services (ERS), and Greywolf Production Systems Inc. and GPS Ltd. (together, Greywolf) production testing businesses. These decreases in Offshore Services and Production Testing revenues were partially offset by increased Fluids Division revenues, which were primarily due to the growth of our onshore frac water management business. Our Compressco segment also reported increased revenues compared to the prior year period, primarily due to increased domestic and Canadian activity, which more than offset decreased activity in Mexico. Any increases in Compressco and Production Testing segment revenue levels in Mexico are dependent on the resolution of current uncertainties with their primary customer in Mexico. Consolidated gross profit decreased significantly during the current year quarter compared to the prior year period, primarily due to the impact of \$23.6 million of Maritech's excess decommissioning expenses as well as from the decreased gross profit of our Production Testing segment. These decreases more than offset the increased profitability of our Fluids Division, which was primarily attributed to the increased domestic onshore frac water management activity.

Consolidated general and administrative expenses increased during the second quarter of 2013 compared to the prior year period primarily due to increases in general and administrative expenses by each of our segments as a result of approximately \$1.3 million of employee severance expenses recorded during the current year period. The impact of cost reduction actions taken during the second quarter of 2013 are expected to result in decreased general and administrative expenses going forward. In addition, consolidated general and administrative expenses of our Production Testing segment increased approximately \$0.8 million as a result of the 2012 acquisitions of OPTIMA, ERS, and Greywolf.

Consolidated interest expense increased slightly, primarily due to increased Compressco borrowings.

Consolidated other income increased primarily due to increased earnings from an unconsolidated joint venture.

We had an income tax benefit during the second quarter of 2013 due to our pretax loss during the period.

Divisional Comparisons

Fluids Division

	Three Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
(In Thousands, Except Percentages)					
Revenues	\$100,226	\$89,847	\$10,379	11.6	%
Gross profit	25,875	21,327	4,548	21.3	%
Gross profit as a percentage of revenue	25.8	% 23.7	%		
General and administrative expense	8,498	7,872	626	8.0	%
General and administrative expense as a percentage of revenue	8.5	% 8.8	%		
Interest (income) expense, net	(59)	) 34	(93))	
Other (income) expense, net	(411)	) (538)	127		
Income before taxes and discontinued operations	\$17,847	\$13,959	\$3,888	27.9	%
Income before taxes and discontinued operations as a percentage of revenue	17.8	% 15.5	%		

The increase in Fluids Division revenues during the second quarter of 2013 compared to the prior year period was primarily due to approximately \$8.5 million of increased service revenues, primarily from the growth of our onshore frac water management business. In addition, the Division's product sales revenue increased by approximately \$2.0 million, primarily due to the increased domestic demand for its manufactured products. However, the increased revenues from the Division's sales of CBF products was largely offset by the impact of decreased international activity compared to the prior year period.

Fluids Division gross profit increased compared to the prior year period, primarily as a result of increased domestic onshore frac water management revenues. Increased gross profit from the Division's manufactured product sales was largely offset by decreased international activity.

Fluids Division income before taxes increased compared to the prior year period due to the increase in gross profit discussed above and despite increased administrative costs. Fluids Division administrative costs increased due to increased personnel-related costs, partially offset by decreased professional services expense.

Production Enhancement Division

Production Testing Segment

	Three Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
(In Thousands, Except Percentages)					
Revenues	\$47,433	\$50,329	\$(2,896)	(5.8))%
Gross profit	7,670	15,420	(7,750)	(50.3))%
Gross profit as a percentage of revenue	16.2	% 30.6	%		
General and administrative expense	6,391	5,622	769	13.7	%
General and administrative expense as a percentage of revenue	13.5	% 11.2	%		
Interest (income) expense, net	7	25	(18))
Other (income) expense, net	(3,045)	(1,397)	(1,648))
Income before taxes and discontinued operations	\$4,317	\$11,170	\$(6,853)	(61.4))%
Income before taxes and discontinued operations as a percentage of revenue	9.1	% 22.2	%		

Production Testing revenues decreased during the second quarter of 2013 compared to the prior year period, despite the acquisitions of ERS and Greywolf during 2012. These acquired production testing businesses generated a total of approximately \$6.7 million of increased revenues during the period compared to the prior year, despite decreased Greywolf Canadian activity in the current year quarter compared to late 2012 levels. Revenues for our OPTIMA offshore rig cooling operation, which was acquired in March 2012, decreased by approximately \$2.5 million compared to the prior year period, due to decreased completion activity in the North Sea market. The segment's previously existing production testing business decreased by approximately \$7.1 million as compared to the prior year period, primarily due to the impact of decreased demand from our primary customer in Mexico due to budget re-evaluations. We believe this decline in demand in Mexico is temporary, and we expect to see a slow increase in activity levels in Mexico. In addition, decreased domestic natural gas drilling and completion activity resulted in reduced demand and pricing pressure in certain of the markets we serve. Latin America revenues also decreased, as activity pursuant to a South American technical management contract is in its final phases. These decreases were partially offset by increased production testing revenues in the Eastern Hemisphere during the second quarter of 2013.

Production Testing segment gross profit decreased during the second quarter of 2013 compared to the prior year period, despite the 2012 acquisitions of ERS and Greywolf. The gross profit increase from these acquired production testing businesses was more than offset by the impact of the above mentioned decreased activity in Mexico, the decreased activity and pricing levels in certain domestic markets, decreased OPTIMA activity, increased labor costs, and the impact of the decreased activity in South America mentioned above. During the second quarter of 2013, we took steps to downsize field operations and implement other cost reductions for the Production Testing segment. These cost reduction actions are expected to result in reduced operating expenses going forward.

Production Testing income before taxes decreased, primarily due to the decreased gross profit discussed above. In addition, general and administrative expenses increased, due to the increased personnel-related costs associated with the acquired ERS and Greywolf businesses. This decrease in profitability was partially offset by increased other income that resulted from increased earnings from an unconsolidated joint venture, partially offset by decreased foreign currency gains.

Compressco Segment

	Three Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
	(In Thousands, Except Percentages)				
Revenues	\$27,981	\$25,258	\$2,723	10.8	%
Gross profit	8,039	9,241	(1,202)	(13.0))%
Gross profit as a percentage of revenue	28.7	% 36.6	%		
General and administrative expense	4,534	4,152	382	9.2	%
General and administrative expense as a percentage of revenue	16.2	% 16.4	%		
Interest (income) expense, net	108	(10)	) 118		
Other (income) expense, net	236	454	(218))	
Income before taxes and discontinued operations	\$3,161	\$4,645	\$(1,484)	(31.9))%
Income before taxes and discontinued operations as a percentage of revenue	11.3	% 18.4	%		

The increase in Compressco revenues compared to the prior year period was due to an increase of \$2.4 million of service revenues, resulting primarily from increased domestic and Canadian activity. Latin American revenues during the current year period were adversely affected by current budget re-evaluations by Compressco's primary customer in Mexico. In March 2013, Compressco began to experience a decline in demand for its oil and gas services from this customer. Compressco believes this decline in demand is temporary, and expects to see a slow increase in activity levels in Mexico. Compressco has continued to increase its compressor fleet, both domestically and in certain international markets, to serve increasing demand for services. Revenues from the sales of compressor units and parts during the second quarter of 2013 increased \$0.3 million compared to the prior year period, primarily due to increased international sales.

Compressco gross profit decreased during the second quarter of 2013 compared to the prior year period, primarily due to the impact of the reduced revenues in Mexico and increased labor and maintenance costs. Average compressor unit utilization increased from 79.7% to 82.6%, however, gross profit as a percentage of revenue decreased compared to the prior year period as a result of the increased costs and the impact of the decreased activity in Mexico. Primarily as a result of the current reduced activity described above, Compressco has reduced its Mexico operating headcount, and it is continuing to adjust its cost structure to current activity levels.

Income before taxes for Compressco decreased during the second quarter of 2013 compared to the prior year period, primarily due to the decreased gross profit discussed above. Compressco's administrative expense levels increased compared to the prior year period, primarily due to increases in administrative salary and personnel-related expenses.

Offshore Division

Offshore Services Segment

	Three Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
	(In Thousands, Except Percentages)				
Revenues	\$64,455	\$80,676	\$(16,221)	(20.1))%
Gross profit	13,119	15,124	(2,005)	(13.3))%
Gross profit as a percentage of revenue	20.4	% 18.7	%		
General and administrative expense	3,579	3,659	(80)	(2.2))%
General and administrative expense as a percentage of revenue	5.6	% 4.5	%		
Interest (income) expense, net	27	27	—		
Other (income) expense, net	(175)	) (326)	) 151		
Income (loss) before taxes and discontinued operations	\$9,688	\$11,764	\$(2,076)	(17.6))%
Income before taxes and discontinued operations as a percentage of revenue	15.0	% 14.6	%		

Revenues from the Offshore Services segment decreased during the second quarter of 2013 compared to the prior year quarter, primarily due to decreased activity levels for its heavy lift and dive services operations as a result of increased competition and decreased pricing in the Gulf of Mexico market. These businesses were also negatively affected by unseasonal weather delays during the current year quarter. The segment has entered into contracts that are expected to result in a significant amount of work to be performed later during 2013.

Gross profit for the Offshore Services segment decreased due to the decreased activity levels for the heavy lift and dive services businesses compared to the prior year period. Although Offshore Services segment revenues decreased by 20.1% compared to the prior year period, gross profit as a percentage of revenues increased, reflecting the improved profitability as a result of cost reduction efforts made during late 2012. During the second quarter of 2013, the Offshore Services segment implemented additional cost reduction measures, and it continues to consider additional opportunities to optimize its cost structure.

Offshore Services segment income before taxes decreased, primarily due to the reduced gross profit discussed above. Segment general and administrative expenses were decreased slightly, despite approximately \$0.3 million of employee severance costs expensed during the current year period. In addition, other income decreased, primarily due to decreased foreign currency gains.

Maritech Segment

	Three Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
	(In Thousands, Except Percentages)				
Revenues	\$1,684	\$1,179	\$505	42.8	%
Gross profit (loss)	(22,738)	) (7,263)	) (15,475)	) 213.1	%
General and administrative expense	999	915	84	9.2	%
General and administrative expense as a percentage of revenue	59.3	% 77.6	%		
Interest (income) expense, net	6	—	6		

Edgar Filing: TETRA TECHNOLOGIES INC - Form 10-Q

Other (income) expense, net	—	448	(448)	
Income (loss) before taxes and discontinued operations	\$(23,743	)	\$(8,626	)	\$(15,117
				)	175.2
					%

As a result of the sale of almost all of its producing properties during 2011 and 2012, Maritech revenues for the second quarter of 2013 and 2012 are negligible and are expected to continue to be negligible going forward.

Maritech gross loss increased during the second quarter of 2013 compared to the prior year period due to approximately \$23.6 million of excess decommissioning costs expensed during the current year period, including approximately \$15.4 million associated with work to be performed during the third and fourth quarters of 2013. The amount expensed during the current year period reflects an increase of approximately \$15.9 million of such costs compared to the prior year period and was due to additional oil and gas abandonment and decommissioning work required on certain offshore properties, including remediation work required on certain wells that had been previously plugged.

The increase in Maritech's pretax loss during the second quarter of 2013 compared to the prior year period is primarily due to the increased gross loss discussed above. The decrease in other expense is due to loss on sales of oil and gas properties during the prior year period.

Corporate Overhead

	Three Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
	(In Thousands, Except Percentages)				
Gross profit (loss) (primarily depreciation expense)	\$(579)	\$(741)	\$162	(21.9)	%
General and administrative expense	10,364	9,246	1,118	12.1	%
Interest (income) expense, net	4,090	4,008	82		
Other (income) expense, net	632	477	155		
(Loss) before taxes and discontinued operations	\$(15,665)	\$(14,472)	\$(1,193)	8.2	%

Corporate Overhead increased during the second quarter of 2013 compared to the prior year period, primarily due to increased corporate general and administrative expenses caused by approximately \$1.2 million of increased personnel costs, including approximately \$0.5 million of employee severance charges during the current year period, that are expected to result in decreased corporate general and administrative expenses going forward. General and administrative expenses also include approximately \$0.7 million of increased office expense, which was primarily the result of the sale and leaseback of our corporate headquarters building in the fourth quarter of 2012. Partially offsetting these increases was approximately \$0.3 million of decreased tax expenses, approximately \$0.2 million of increased allocated costs, and approximately \$0.3 million of decreased general expenses.

Six months ended June 30, 2013 compared with six months ended June 30, 2012.

Consolidated Comparisons

	Six Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
	(In Thousands, Except Percentages)				
Revenues	\$429,660	\$415,705	\$13,955	3.4	%
Gross profit	70,072	85,503	(15,431)	(18.0))%
Gross profit as a percentage of revenue	16.3	% 20.6	%		
General and administrative expense	67,919	62,357	5,562	8.9	%
General and administrative expense as a percentage of revenue	15.8	% 15.0	%		
Interest expense, net	8,378	8,235	143	1.7	%
Other (income) expense, net	(5,041)	) (5,281)	) 240	(4.5))%
Income (loss) before taxes and discontinued operations	(1,184)	) 20,192	(21,376)	(105.9))%
Income (loss) before taxes and discontinued operations as a percentage of revenue	(0.3)	)% 4.9	%		
Provision (benefit) for income taxes	(776)	) 6,866	(7,642)	(111.3))%
Income (loss) before discontinued operations	(408)	) 13,326	(13,734)	(103.1))%
Income (loss) from discontinued operations, net of taxes	—	2	(2)		
Net income (loss)	(408)	) 13,328	(13,736)	(103.1))%
Net (income) attributable to noncontrolling interest	(1,220)	) (1,073)	) (147)		
Net income (loss) attributable to TETRA stockholders	\$(1,628)	) \$12,255	\$(13,883)	(113.3))%

Consolidated revenues for the six months ended June 30, 2013, increased compared to the prior year period due to increased revenues for our Fluids, Production Testing and Compressco segments. The increase in the Fluids Division's revenues is primarily due to the growth of our onshore frac water management business. Our Production Testing segment revenues increased, reflecting the impact of 2012 acquisitions. The impact on segment revenues from these acquisitions more than offset the decreased Production Testing segment revenues resulting from decreased activity experienced in several of the markets it serves. Our Compressco segment reported increased revenues during the six month period, primarily due to increased activity in Latin America during the first quarter of 2013. Any increases in the Compressco and Production Testing segments' activity levels in Latin America are subject to the resolution of current uncertainties with our primary customer in Mexico. The increased consolidated revenues were negatively affected by our Offshore Services segment, which reported decreased revenues due to a reduction in heavy lift and dive services activity. These businesses were also adversely affected by weather delays as well as by continuing market challenges in the U.S. Gulf of Mexico during the current year period. Consolidated gross profit decreased, despite the increased profitability of our Fluids Division, as our Maritech, Production Testing, and Offshore Services segments all reported decreases. Maritech expensed approximately \$32.9 million of excess decommissioning costs during the current year period.

Consolidated general and administrative expenses increased during the first six months of 2013 compared to the prior year period due to approximately \$1.2 million of increased general and administrative expenses by our Production Testing segment as a result of the businesses acquired during 2012. Consolidated general and administrative expenses also increased as a result of approximately \$1.3 million of employee severance expenses recorded during the second quarter of 2013. In addition, our Maritech segment's general and administrative expenses increased approximately

\$0.9 million, primarily due to legal expenses associated with an insurance-related settlement during the first quarter of 2013. These increases, along with the impact from the growth of our Fluids Division, were partially offset by our Offshore Services segment, where general and administrative costs decreased by \$0.4 million, primarily due to the cost reduction steps taken in late 2012. Cost reduction efforts taken during late 2012 and the second quarter of 2013 are anticipated to reduce administrative cost levels going forward.

Consolidated interest expense was slightly increased during the first six months of 2013, primarily due to increased Compressco borrowings.

Consolidated other income decreased, primarily due to \$3.2 million of decreased gains on sale of assets, partially offset by increased earnings from an unconsolidated joint venture.

We had an income tax benefit during the first six months of 2013 due to the pretax loss during the period.

Divisional Comparisons

Fluids Division

	Six Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
(In Thousands, Except Percentages)					
Revenues	\$194,266	\$169,180	\$25,086	14.8	%
Gross profit	50,220	39,247	10,973	28.0	%
Gross profit as a percentage of revenue	25.9	% 23.2	%		
General and administrative expense	16,331	14,871	1,460	9.8	%
General and administrative expense as a percentage of revenue	8.4	% 8.8	%		
Interest (income) expense, net	(70	) 61	(131)	
Other (income) expense, net	(893	) (1,109	) 216		
Income before taxes and discontinued operations	\$34,852	\$25,424	\$9,428	37.1	%
Income before taxes and discontinued operations as a percentage of revenue	17.9	% 15.0	%		

The increase in Fluids Division revenues during the six months ended June 30, 2013, compared to the prior year period was primarily due to approximately \$15.5 million of increased service revenues from the growth of our onshore frac water management business. In addition, the Division also reported \$9.6 million of increased product sales revenue, primarily due to the increased domestic offshore demand for its CBF products. U.S. Gulf of Mexico drilling and completion activity levels have continued to increase in 2013 compared to the prior year period. In addition, increased domestic sales of brominated products also contributed to increased product sales revenues.

Fluids Division gross profit increased compared to the prior year period, primarily as a result of the increased domestic onshore frac water management activity and increased Gulf of Mexico product sales discussed above.

Fluids Division income before taxes increased compared to the prior year period due to the increase in gross profit discussed above and despite increased administrative costs. Fluids Division administrative costs increased primarily due to increased personnel-related costs.

Production Enhancement Division

Production Testing Segment

	Six Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
	(In Thousands, Except Percentages)				
Revenues	\$102,040	\$88,612	\$13,428	15.2	%
Gross profit	17,890	25,355	(7,465)	(29.4))%
Gross profit as a percentage of revenue	17.5	% 28.6	%		
General and administrative expense	12,647	10,605	2,042	19.3	%
General and administrative expense as a percentage of revenue	12.4	% 12.0	%		
Interest (income) expense, net	(26)	) 31	(57))	
Other (income) expense, net	(5,346)	) (2,128)	(3,218))	
Income before taxes and discontinued operations	\$10,615	\$16,847	\$(6,232)	(37.0))%
Income before taxes and discontinued operations as a percentage of revenue	10.4	% 19.0	%		

Production Testing revenues increased during the first six months of 2013 compared to the prior year period, due to the acquisitions of OPTIMA, ERS, and Greywolf during 2012. These acquired businesses together generated approximately \$27.0 million of increased revenues during the period compared to the prior year, despite decreased Greywolf Canadian activity in the current year period compared to late 2012 levels. Revenues for our previously existing production testing business decreased by approximately \$13.6 million as compared to the prior year period, primarily due to the impact of reduced activity in Mexico caused by current budget re-evaluations by the segment's primary customer in Mexico. We believe this decline in demand is temporary, and we expect to see a slow increase in activity levels in Mexico. Decreased revenues in Mexico were also caused by decreased demand during the first quarter of 2013 for certain of the segment's production testing services, a portion of which was offset, on a consolidated basis, by increased demand for well monitoring services during the first quarter of 2013 by our Compressco segment. In addition, lower domestic natural gas drilling and completion activity reduced demand and pricing in certain of the markets we serve. These decreases were partially offset by increased revenues from operations in the Eastern Hemisphere during the first six months of 2013.

Production Testing segment gross profit decreased during the first six months of 2013 compared to the prior year period, despite the 2012 acquisitions of OPTIMA, ERS, and Greywolf. The gross profit increase from the acquired businesses and the growth in certain of the segment's international operations was more than offset by the impact of the decreased activity and pricing levels in certain domestic markets, increased labor costs, and the impact of the decreased production testing activity in Mexico compared to the prior year period. During the second quarter of 2013, we took steps to downsize field operations and implement other cost reductions for the Production Testing segment in an effort to increase gross profit going forward.

Production Testing income before taxes decreased due to the decreased gross profit discussed above, as well as from increased administrative costs compared to the prior year period. The increased administrative expenses were primarily due to the increased personnel-related and other administrative costs associated with the acquired OPTIMA, ERS, and Greywolf businesses. Partially offsetting the decreased gross profit and increased general and administrative expenses, other income increased, primarily due to increased earnings from an unconsolidated joint venture, partially offset by decreased foreign currency gains.

Compressco Segment

	Six Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
	(In Thousands, Except Percentages)				
Revenues	\$58,806	\$47,940	\$10,866	22.7	%
Gross profit	17,842	17,122	720	4.2	%
Gross profit as a percentage of revenue	30.3	% 35.7	%		
General and administrative expense	9,091	8,726	365	4.2	%
General and administrative expense as a percentage of revenue	15.5	% 18.2	%		
Interest (income) expense, net	167	(22	) 189		
Other (income) expense, net	198	263	(65)	
Income before taxes and discontinued operations	\$8,386	\$8,155	\$231	2.8	%
Income before taxes and discontinued operations as a percentage of revenue	14.3	% 17.0	%		

The increase in Compressco revenues compared to the prior year period was due to an increase of \$10.7 million of service revenues, resulting primarily from increased activity in Latin America during the first quarter of 2013. However, as a result of the budget re-evaluations by Compressco's primary customer in Mexico, in March 2013 Compressco began to experience a decline in demand for its oil and gas services in Mexico. We believe this decline in demand is temporary, and we expect to see a slow increase in activity levels in Mexico. In addition to the increased Latin America revenues for the six month period, domestic and Canadian revenues also increased compared to the prior year period, reflecting the increased demand for unconventional compression applications services. Compressco has continued to increase its compressor fleet, both domestically and in certain international markets, to serve increasing demand. Revenues from the sales of compressor units and parts during the first six months of 2013 increased \$0.2 million compared to the prior year period.

Compressco gross profit increased modestly during the first six months of 2013 compared to the prior year period, as the increased domestic and Latin America revenues were largely offset by increased operating expenses, particularly labor, maintenance, and fuel costs. Gross profit as a percentage of revenue decreased compared to the prior year period as a result of these cost increases. Primarily as a result of the current reduced activity described above, Compressco has reduced its Mexico operating headcount and it is continuing to adjust its cost structure to current activity levels.

Income before taxes for Compressco increased slightly during the first six months of 2013 compared to the prior year period due to the increased gross profit discussed above. Compressco's administrative expense levels increased compared to the prior year period due to increases in administrative salary and personnel related expenses.

Offshore Division

Offshore Services Segment

	Six Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
	(In Thousands, Except Percentages)				
Revenues	\$102,104	\$125,771	\$(23,667)	(18.8))%
Gross profit	11,597	14,019	(2,422)	(17.3))%
Gross profit as a percentage of revenue	11.4	% 11.1	%		
General and administrative expense	7,262	7,630	(368)	(4.8))%
General and administrative expense as a percentage of revenue	7.1	% 6.1	%		
Interest (income) expense, net	54	54	—		
Other (income) expense, net	(204)	) (4,396	) 4,192		
Income before taxes and discontinued operations	\$4,485	\$10,731	\$(6,246)	(58.2))%
Income before taxes and discontinued operations as a percentage of revenue	4.4	% 8.5	%		

Revenues from our Offshore Services segment decreased during the first six months of 2013 compared to the prior year period, primarily due to decreased activity levels in the Gulf of Mexico market for its heavy lift and dive services businesses. These businesses were also negatively affected by weather delays during the period, including unseasonal weather delays during the second quarter. The segment has entered into contracts that are expected to result in a significant amount of work to be performed later during 2013.

Consistent with the significant decrease in revenues for the Offshore Services segment during the first six months of 2013, gross profit decreased during the period compared to the prior year period. This decrease was primarily associated with the dive services business due to continuing market challenges, which have resulted in increased competition and decreased pricing compared to the prior year period. In addition, the impact of weather delays during the period also affected profitability. Although Offshore Services segment revenues decreased by 18.8% compared to the prior year period, gross profit as a percentage of revenues remained flat, reflecting the improved profitability as a result of cost reduction efforts made during late 2012 and the second quarter of 2013. The Offshore Services segment continues to consider additional opportunities to optimize its cost structure.

Offshore Services segment income before taxes decreased, primarily due to the reduced gross profit discussed above and decreased other income, due to a \$4.1 million gain on sale of certain abandonment assets during the prior year period. Offshore Services administrative costs decreased as a result of the segment's cost reduction efforts, which reduced salary and personnel-related expenses, and more than offset approximately \$0.3 million of severance costs expensed during the second quarter of 2013.

Maritech Segment

	Six Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
	(In Thousands, Except Percentages)				
Revenues	\$2,844	\$3,794	\$(950)	(25.0))%
Gross profit (loss)	(26,317)	) (8,757	) (17,560)	200.5	%
General and administrative expense	2,314	1,367	947	69.3	%
General and administrative expense as a percentage of revenue	81.4	% 36.0	%		
Interest (income) expense, net	12	1	11		

Edgar Filing: TETRA TECHNOLOGIES INC - Form 10-Q

Other (income) expense, net	8	582	(574)				
Income (loss) before taxes and discontinued operations	\$(28,651)	\$(10,707)	\$(17,944)	167.6	%

29

As a result of the sale of almost all of its producing properties during 2011 and 2012, Maritech revenues for the first six months of 2013 and 2012 are negligible and are expected to continue to be negligible going forward.

Maritech gross loss increased during the first six months of 2013 due to approximately \$32.9 million of excess decommissioning costs expensed during the current year period, an increase of approximately \$22.9 million compared to the prior year period. Revisions in estimated decommissioning liability cash flows during the first six months of 2013 resulted primarily from additional work incurred and anticipated to be required on Maritech's offshore oil and gas properties. Partially offsetting the increased costs, approximately \$5.6 million was credited to operating expenses during the first quarter of 2013 associated with the net impact of an insurance-related litigation settlement recorded in the current year period.

The increase in Maritech's pretax loss during the first six months of 2013 compared to the prior year period is primarily due to the increased gross loss discussed above. The increase in general and administrative expenses is primarily due to the professional fees associated with the insurance-related litigation settlement received during the first quarter.

Corporate Overhead

	Six Months Ended June 30,		Period to Period Change		
	2013	2012	2013 vs 2012	% Change	
	(In Thousands, Except Percentages)				
Gross profit (loss) (primarily depreciation expense)	\$(1,160)	\$(1,483)	\$ 323	(21.8)	%
General and administrative expense	20,275	19,158	1,117	5.8	%
Interest (income) expense, net	8,242	8,110	132		
Other (income) expense, net	1,194	1,507	(313)		
(Loss) before taxes and discontinued operations	\$(30,871)	\$(30,258)	\$(613)	2.0	%

Corporate Overhead increased during the second quarter of 2013 compared to the prior year period, primarily due to increased corporate general and administrative expenses, which increased primarily due to approximately \$1.3 million of increased office expense and \$0.2 million of increased tax expense. The increased office expense was primarily a result of the sale and leaseback of our corporate headquarters building in the fourth quarter of 2012. These increases were partially offset by approximately \$0.2 million of decreased general expenses and \$0.2 million of increased allocations. Corporate salary, benefit, and personnel-related expenses were consistent with the prior year period, despite approximately \$0.5 million of severance costs incurred during the second quarter of 2013 associated with recent cost reduction efforts, which are expected to result in decreased corporate general and administrative expenses going forward.

Liquidity and Capital Resources

We continue to utilize our operating cash flows to extinguish Maritech's remaining decommissioning liabilities, fund capital expenditures activity, and further strengthen our consolidated balance sheet. As of June 30, 2013, Maritech's remaining decommissioning liabilities have been reduced to approximately \$49.5 million. Funded by increased operating cash flows generated during the first six months of 2013, we expended approximately \$70.8 million on these efforts during the period. Maritech expects to complete the remaining asset retirement work on its operated properties by the end of 2013. The increase in our operating cash flows was primarily due to the impact of efforts to improve cash collections. To further enhance our operating cash flows, we have taken steps to reduce operating and administrative expenses for each of our segments. These cost reduction efforts are expected to result in further increases in operating cash flows and profitability going forward. In addition, we spent approximately \$51.5 million on capital expenditure activity for several of our existing businesses. To fund potential growth, we have approximately \$252.0 million available under our revolving credit facility. Compressco Partners amended its bank

revolving credit facility during the second quarter of 2013, increasing its maximum credit commitment under the facility to \$40.0 million and it has \$18.3 million available under its credit facility. During the second quarter of 2013, we issued \$35.0 million of new 4.0% Series 2013 Senior Note debt, the proceeds of which were used to repay the maturity of the 6.3% Series 2008-A Senior Note obligation. In addition to the ongoing capital expenditure activity, we continue to evaluate opportunities to further expand certain of our businesses through acquisitions, consistent with our growth plan.

Operating Activities

Cash flows generated by operating activities totaled \$30.4 million during the first six months of 2013 compared to \$8.0 million of cash used by operating activities during the prior year period, an increase of \$38.4 million. This increase in operating cash flows during 2013 compared to the prior year period was largely due to an improvement of approximately \$58.4 million from the collection of accounts receivable, reflecting an effort begun during late 2012 to expedite collections. This increase in cash generated by operating activities was generated despite approximately \$70.8 million of decommissioning activity performed during the six months ended June 30, 2013, an increase of \$28.2 million compared to the prior year period. A portion of the decommissioning activity performed during the current year period was associated with approximately \$32.9 million of excess decommissioning costs charged to earnings during the period.

Maritech continues to perform an extensive amount of well abandonment and decommissioning work associated with its remaining offshore oil and gas production wells, platforms, and facilities. As of June 30, 2013, Maritech's decommissioning liabilities totaled approximately \$49.5 million. Our future operating cash flows will continue to be affected by the actual timing and amount of Maritech's decommissioning expenditures. Most of the cash outflow necessary to extinguish Maritech's remaining decommissioning liabilities is expected to occur during the remainder of 2013. Included in Maritech's decommissioning liabilities is the remaining abandonment, decommissioning, and debris removal associated with one offshore platform that was previously destroyed by a hurricane as well as certain remediation work required on wells that had been previously plugged. Due to the unique nature of the remaining work to be performed associated with these properties, actual costs could greatly exceed these estimates and could result in significant charges to earnings in future periods.

Demand for a large portion of our products and services is driven by oil and gas industry activity, which is affected by oil and natural gas commodity pricing. Continuing a trend that began during 2012, domestic natural gas prices during the first half of 2013 increased compared to the prior year period. However, oil and natural gas commodity pricing continues to be volatile, and such volatility is expected to continue in the future.

Demand for our Production Testing and Compressco businesses are also affected by the level of activity in Mexico. As a result of ongoing budget re-evaluations by our primary customer in Mexico, beginning in March 2013, we began to experience a decline in the level of activity and revenues in Mexico. We believe this decline in demand is temporary, and we expect to see a slow increase in activity in Mexico. Any increase in the levels of Mexico revenues are dependent upon the resolution of these customer budget re-evaluations and the renewal or extension of certain contracts, or the awarding of new contracts, with this customer.

During late 2012 and the first half of 2013, each of our segments implemented operating and administrative cost reductions, including reductions in headcount, that are designed to streamline our operations and downsize our organization, particularly in our corporate headquarters and in certain of our businesses. Together with the specific cost reduction steps taken by our Offshore Services segment in late 2012, and excluding the impact of severance costs that were recognized in the second quarter of 2013 associated with headcount reductions, these cost reduction efforts are expected to result in further increases in operating cash flows and improved profitability going forward. We continue to review our overall operating and administrative cost structure in order to identify additional opportunities to reduce costs.

We are subject to operating hazards normally associated with onshore and offshore oilfield service operations, including fires, explosions, blowouts, cratering, mechanical problems, abnormally pressured formations, and accidents that cause harm to the environment. In addition, in the performance of each of our operations we are exposed to additional hazards, including personal injuries and vehicle-related accidents. We maintain various types of insurance

that are designed to be applicable in the event of an explosion or other catastrophic event involving our offshore operations. This insurance includes third-party liability, workers' compensation and employers' liability, automobile liability, general liability, vessel pollution liability, and operational risk coverage for our Maritech oil and gas properties, including removal of debris, operator's extra expense, control of well, and pollution and clean-up coverage. Our insurance coverage is subject to deductibles that must be satisfied prior to recovery. Additionally, our insurance is subject to certain exclusions and limitations. We believe our policy of insuring against such risks, as well as the levels of insurance we maintain, is typical in the industry. In addition, we provide services and products in the offshore Gulf of Mexico generally pursuant to agreements that create insurance and indemnity obligations for both parties. Our Maritech subsidiary maintains a formalized oil spill response plan that is submitted to the Bureau of Safety and Environmental Enforcement (BSEE). Maritech has designated third-party contractors in place to

ensure that resources are available as required in the event of an environmental accident. While it is impossible to anticipate every potential accident or incident involving our offshore operations, we believe we have taken appropriate steps to mitigate the potential impact of such an event on the environment in the regions in which we operate.

Investing Activities

During the first six months of 2013, the total amount of our net cash utilized on investing activities was \$50.4 million. Total cash capital expenditures during the first six months of 2013 were \$51.5 million. Approximately \$20.3 million of our capital expenditures during the first six months of 2013 was spent by our Fluids Division, the majority of which related to the purchase of new equipment to support its frac water management business. Our Production Enhancement Division spent approximately \$27.4 million of capital expenditures, consisting of approximately \$13.6 million by the Production Testing segment to add or replace a portion of its production testing equipment fleet, and approximately \$13.8 million by the Compressco segment for the upgrade and expansion of its wellhead compressor and equipment fleet. Our Offshore Services segment spent approximately \$3.4 million for costs on its various heavy lift and dive support vessels. Corporate capital expenditures were approximately \$0.4 million.

Generally, a significant majority of our planned capital expenditures is related to identified opportunities to grow and expand our existing businesses (other than Maritech). However, certain of these planned expenditures may be postponed or canceled in an effort to conserve capital or otherwise address future market conditions. Although our planned level of capital expenditures during the remainder of 2013 is subject to the impact of acquisitions and future market conditions, we currently plan to expend approximately \$100 million on total capital expenditures (excluding acquisitions) during the current year. The deferral of capital projects could affect our ability to compete in the future. To the extent we consummate an additional significant acquisition transaction or other capital project, our liquidity position and capital plans will be affected.

Financing Activities

To fund our capital and working capital requirements, we may supplement our existing cash balances and cash flow from operating activities as needed from long-term borrowings, short-term borrowings, operating leases, equity issuances, and other sources of capital.

Our Bank Credit Facilities

We have a \$278 million revolving credit facility with a syndicate of banks pursuant to a credit facility agreement that was most recently amended in October 2010 (the Credit Agreement). As of August 8, 2013, we had an outstanding balance on the revolving credit facility of approximately \$17.6 million, and had \$8.3 million in letters of credit and guarantees against the revolving credit facility, leaving a net availability of \$252.0 million. In addition, the amended credit facility agreement allows us to increase the facility by \$150 million, up to a \$428 million limit upon the agreement of the lenders and the satisfaction of certain conditions. Approximately \$13.0 million of the \$19.5 million outstanding borrowings under the credit facility agreement as of June 30, 2013, is denominated in euros, which has been designated as a hedge of the net investment in our European operations.

Under the Credit Agreement, which matures on October 29, 2015, the revolving credit facility is unsecured and guaranteed by certain of our material U.S. subsidiaries (excluding Compressco). Borrowings generally bear interest at the British Bankers Association LIBOR rate plus 1.5% to 2.5%, depending on one of our financial ratios. We pay a commitment fee ranging from 0.225% to 0.500% on unused portions of the facility. The Credit Agreement contains customary covenants and other restrictions, including certain financial ratio covenants based on our levels of debt and interest cost compared to a defined measure of our operating cash flows over a twelve month period. In addition, the Credit Agreement includes limitations on aggregate asset sales, individual acquisitions, and aggregate annual

acquisitions and capital expenditures. Access to our revolving credit line is dependent upon our compliance with the financial ratio covenants set forth in the Credit Agreement. Significant deterioration of the financial ratios could result in a default by us under the Credit Agreement and, if not remedied, could result in termination of the Credit Agreement and acceleration of any outstanding balances. Compressco is an unrestricted subsidiary and is not a borrower or a guarantor under our bank credit facility.

The Credit Agreement includes cross-default provisions relating to any other indebtedness greater than a defined amount. If any such indebtedness is not paid or is accelerated and such event is not remedied in a timely

manner, a default will occur under the Credit Agreement. Our Credit Agreement also contains a covenant that restricts us from paying dividends in the event of a default or if such payment would result in an event of default. We are in compliance with all covenants and conditions of our Credit Agreement as of June 30, 2013. Our continuing ability to comply with these financial covenants depends largely upon our ability to generate adequate cash flow. Historically, our financial performance has been more than adequate to meet these covenants, and we expect this trend to continue.

Our European Credit Agreement

We also have a bank line of credit agreement to cover the day to day working capital needs of certain of our European operations (the European Credit Agreement). The European Credit Agreement provides borrowing capacity of up to 5 million euros (approximately \$6.5 million equivalent as of June 30, 2013), with interest computed on any outstanding borrowings at a rate equal to the lender's Basis Rate plus 0.75%. The European Credit Agreement is cancellable by either party with 14-business-days notice and contains standard provisions in the event of default. As of June 30, 2013, we had no borrowings outstanding pursuant to the European Credit Agreement.

Compressco Partners' Bank Credit Facility

On June 24, 2011, Compressco Partners entered into a credit agreement (the Partnership Credit Agreement) with JPMorgan Chase Bank, N.A., which was amended on December 4, 2012, and May 14, 2013. Under the Partnership Credit Agreement, as amended, Compressco Partners, along with certain of its subsidiaries, are named as borrowers, and all of its existing and future, direct and indirect, domestic subsidiaries are guarantors. We are not a borrower or a guarantor under the Partnership Credit Agreement. The Partnership Credit Agreement, as amended, includes a maximum credit commitment of \$40.0 million, that is available for letters of credit (with a sublimit of \$5.0 million), and includes an uncommitted \$20.0 million expansion feature.

The Partnership Credit Agreement may be used to fund Compressco Partners' working capital needs, letters of credit, and for general partnership purposes, including capital expenditures and acquisitions. So long as Compressco Partners is not in default, the Partnership Credit Agreement may also be used to fund Compressco Partners' quarterly distributions. Borrowings under the Partnership Credit Agreement are subject to the satisfaction of customary conditions, including the absence of a default. As of June 30, 2013, Compressco Partners had an outstanding balance of \$21.5 million under the Partnership Credit Agreement. The maturity date of the Partnership Credit Agreement is June 24, 2015.

All obligations under the Partnership Credit Agreement and the guarantees of those obligations are secured, subject to certain exceptions, by a first lien security interest in substantially all of the assets (excluding real property) of Compressco Partners and its existing and future, direct and indirect domestic subsidiaries, and all of the capital stock of its existing and future, direct and indirect subsidiaries (limited, in the case of foreign subsidiaries, to 65% of the capital stock of first tier foreign subsidiaries). Borrowings under the Partnership Credit Agreement, as amended, are limited to a borrowing capacity that is determined based on Compressco Partners' domestic accounts receivable, inventory, and compressor fleet, less a reserve of \$3.0 million. As of June 30, 2013, Compressco Partners had availability under its revolving credit facility of \$18.3 million, based upon a \$39.7 million borrowing capacity and the \$21.5 million outstanding balance.

Borrowings under the Partnership Credit Agreement bear interest at a rate per annum equal to, at Compressco Partners' option, either (a) British Bankers Association LIBOR (adjusted to reflect any required bank reserves) for an interest period equal to one, two, three, or six months (as it selects) plus a margin of 2.25% per annum or (b) a base rate determined by reference to the highest of (1) the prime rate of interest announced from time to time by JPMorgan Chase Bank, N.A. or (2) British Bankers Association LIBOR (adjusted to reflect any required bank reserves) for a one-month interest period on such day plus 2.50% per annum. In addition to paying interest on any outstanding

principal under the Partnership Credit Agreement, Compressco Partners is required to pay customary collateral monitoring fees and letter of credit fees, including without limitation, a letter of credit fee equal to the applicable margin on revolving credit LIBOR loans and fronting fees.

The Partnership Credit Agreement requires Compressco Partners to maintain a minimum interest coverage ratio (ratio of earnings before interest and taxes to interest) of 2.5 to 1.0 as of the last day of any fiscal quarter, calculated on a trailing four quarter basis, whenever availability is less than \$5 million. In addition, the Partnership Credit Agreement includes customary negative covenants, which, among other things, limit Compressco Partners'

ability to incur additional debt, incur, or permit certain liens to exist, or make certain loans, investments, acquisitions, or other restricted payments. The Partnership Credit Agreement provides that Compressco Partners can make distributions to holders of its common and subordinated units, but only if there is no default or event of default under the facility. If an event of default occurs, the lenders are entitled to take various actions, including the acceleration of amounts due under the Partnership Credit Agreement.

Senior Notes

In April 2006, we issued \$90.0 million in aggregate principal amount of Series 2006-A Senior Notes pursuant to our existing Master Note Purchase Agreement dated September 2004, as supplemented as of April 18, 2006. The Series 2006-A Senior Notes bear interest at a fixed rate of 5.90% and mature on April 30, 2016. Interest on the 2006-A Senior Notes is due semiannually on April 30 and October 30 of each year.

In April 2008, we issued \$35.0 million in aggregate principal amount of Series 2008-A Senior Notes and \$90.0 million in aggregate principal amount of Series 2008-B Senior Notes (collectively the Series 2008 Senior Notes) pursuant to a Note Purchase Agreement dated April 30, 2008. The Series 2008-A Senior Notes bore interest at a fixed rate of 6.30% and matured and were repaid on April 30, 2013. The Series 2008-B Senior Notes bear interest at a fixed rate of 6.56% and mature on April 30, 2015. Interest on the Series 2008 Senior Notes is due semiannually on April 30 and October 31 of each year.

In December 2010, we issued \$65.0 million in aggregate principal amount of Series 2010-A Senior Notes and \$25.0 million in aggregate principal amount of Series 2010-B Senior Notes (collectively, the 2010 Senior Notes) pursuant to a Note Purchase Agreement dated September 30, 2010. The Series 2010-A Senior Notes bear interest at a fixed rate of 5.09% and mature on December 15, 2017. The Series 2010-B Senior Notes bear interest at a fixed rate of 5.67% and mature on December 15, 2020. Interest on the Series 2010 Senior Notes is due semiannually on June 15 and December 15 of each year.

In April 2013, we issued \$35.0 million in aggregate principal amount of Series 2013 Senior Notes pursuant to a Note Purchase Agreement dated April 29, 2013. The Series 2013 Senior Notes bear interest at a fixed rate of 4.0% and mature on April 29, 2020. Upon receipt of the proceeds in April 2013, we utilized the funds to repay the Series 2008-A Senior Notes.

Each of the Senior Notes was sold in the United States to accredited investors pursuant to an exemption from the Securities Act of 1933. We may prepay the Senior Notes, in whole or in part, at any time at a price equal to 100% of the principal amount outstanding, plus accrued and unpaid interest and a “make-whole” prepayment premium. The Senior Notes are unsecured and are guaranteed by substantially all of our wholly owned U.S. subsidiaries. The Note Purchase Agreements and the Master Note Purchase Agreement, as supplemented, contain customary covenants and restrictions and require us to maintain certain financial ratios, including a minimum level of net worth and a ratio between our long-term debt balance and a defined measure of operating cash flow over a twelve month period. The Note Purchase Agreements and the Master Note Purchase Agreement also contain customary default provisions as well as a cross-default provision relating to any other of our indebtedness of \$20 million or more. We are in compliance with all covenants and conditions of the Note Purchase Agreements and the Master Note Purchase Agreement as of June 30, 2013. Upon the occurrence and during the continuation of an event of default under the Note Purchase Agreements and the Master Note Purchase Agreement, as supplemented, the Senior Notes may become immediately due and payable, either automatically or by declaration of holders of more than 50% in principal amount of the Senior Notes outstanding at the time.

Other Sources and Uses

In addition to the aforementioned revolving credit facilities, we fund our short-term liquidity requirements from cash generated by operations, operating leases, and from short-term vendor financing. Should additional capital be required, we believe that we have the ability to raise such capital through the issuance of additional debt or equity. However, instability or volatility in the capital markets at the times we need to access capital may affect the cost of capital and the ability to raise capital for an indeterminable length of time. As discussed above, our Credit Agreement matures in 2015, and our Senior Notes mature at various dates between April 2015 and December 2020. The replacement of these capital sources at similar or more favorable terms is not certain. If it is necessary to issue equity to fund our capital needs, dilution to our common stockholders will occur.

Compressco Partners' Partnership Agreement requires that within 45 days after the end of each quarter, it distribute all of its available cash, as defined in the Partnership Agreement, to its unitholders of record on the applicable record date. For the six months ended June 30, 2013, Compressco Partners distributed approximately \$2.4 million to its public unitholders.

Off Balance Sheet Arrangements

As of June 30, 2013, we had no "off balance sheet arrangements" that may have a current or future material effect on our consolidated financial condition or results of operations.

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.

Contractual Obligations

Our contractual obligations and commitments principally consists of obligations associated with our outstanding indebtedness, product purchase obligations, decommissioning and other asset retirement obligations, and obligations under operating and capital leases. Except for the following, during the first six months of 2013, there were no material changes outside the ordinary course of business in the specified contractual obligations.

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 a 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.

Through the six month period ended June 30, 2013, Compressco Partners borrowed \$11.4 million pursuant to its bank credit facility, resulting in an aggregate of \$21.5 million outstanding. The maturity date for the Compressco Partners bank credit facility is June 24, 2015.

For additional information about our contractual obligations as of December 31, 2012, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual Report on Form 10-K for the year ended

December 31, 2012.

35

Cautionary Statement for Purposes of Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements can be identified by words such as “anticipates,” “expects,” “believes,” “plans,” “would,” “could,” “estimates,” and similar terms. These forward-looking statements include, without limitation, statements concerning our business outlook, future sales, earnings, costs, expenses, contract renewals, acquisitions or corporate combinations, asset recoveries, working capital, capital expenditures, financial condition, and other results of operations. Such statements reflect our current views with respect to future events and financial performance and are subject to certain risks, uncertainties, and assumptions, including those that are set forth in Item 1A “Risk Factors” in Part I of our Annual Report on Form 10-K for the year ended December 31, 2012, and others that may be set forth from time to time in our filings with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated, or projected. We undertake no obligation to publicly update or revise any forward-looking statement, except as may be required by law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes in the information pertaining to our Market Risk exposures as disclosed in our Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2013, the end of the period covered by this quarterly report.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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 amounts accrued has been incurred that is expected to have a material adverse impact on our financial condition, results of operations, or liquidity.

Environmental Proceedings

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.

Item 1A. Risk Factors.

There have been no material changes in the information pertaining to our Risk Factors as disclosed in our Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) None.

(b) None.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Publicly Announced Plans or Programs ⁽¹⁾
Apr 1 – Apr 30, 2013	—	—	—	\$ 14,327,000
May 1 – May 31, 2013	—	—	—	14,327,000
June 1 – June 30, 2013	25,345	(2) \$10.29	—	14,327,000
Total	25,345		—	\$ 14,327,000

In January 2004, our Board of Directors authorized the repurchase of up to \$20 million of our common stock.

(1) Purchases will be made from time to time in open market transactions at prevailing market prices. The repurchase program may continue until the authorized limit is reached, at which time the Board of Directors may review the option of increasing the authorized limit.

(2) Shares we received in connection with the exercise of certain employee stock options or the vesting of certain shares of employee restricted stock. These shares were not acquired pursuant to the stock repurchase program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits:

- | | |
|----------|--|
| 4.1 | Note Purchase Agreement, dated April 29, 2013, by and among TETRA Technologies, Inc. and The Lincoln National Life Insurance Company and Lincoln Life & Annuity Company of New York (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on May 3, 2013 (SEC File No. 001-13455)). |
| 4.2 | First Amendment to Note Purchase Agreement dated and effective as of April 29, 2013, by and among TETRA Technologies, Inc. and The Lincoln National Life Insurance Company and Lincoln Life & Annuity Company of New York (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed on May 3, 2013 (SEC File No. 001-13455)). |
| 4.3 | Form of 4.00% Senior Notes due April 29, 2020 (incorporated by reference to Exhibit 4.3 to the Company's Form 8-K filed on May 3, 2013 (SEC File No. 001-13455)). |
| 4.4 | Subsidiary Guaranty dated April 29, 2013, executed by Compressco Field Services, L.L.C., EPIC Diving & Marine Services, LLC, TETRA Applied Technologies, LLC, TETRA International Incorporated and TETRA Production Testing Services, LLC, in favor of the holders of the 4.00% Senior Notes due April 29, 2020 (incorporated by reference to Exhibit 4.4 to the Company's Form 8-K filed on May 3, 2013 (SEC File No. 001-13455)). |
| 10.1 | TETRA Technologies, Inc. 2011 Amended and Restated Long Term Incentive Compensation Plan (incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 filed on May 9, 2013 (SEC File No. 333-188494)). |
| 10.2 | Forms of Employee Incentive Stock Option Agreement, Employee Nonqualified Stock Option Agreement, Employee Restricted Stock Agreement, Non-Employee Director Restricted Stock Agreement, Non-Employee Nonqualified Stock Option Agreement and Non-Employee Restricted Stock Agreement under the TETRA Technologies, Inc. 2011 Amended and Restated Long Term Incentive Compensation Plan (incorporated by reference to Exhibits 4.10, 4.11, 4.12, 4.13, 4.14 and 4.15, respectively to the Company's Registration Statement on Form S-8 filed on May 9, 2013 (SEC File No. 333-188494)). |
| 10.3 | Form of Change in Control Agreement (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 4, 2013 (SEC File No. 001-13455)). |
| 31.1* | Certification Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification Furnished Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification Furnished Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS+ | XBRL Instance Document. |
| 101.SCH+ | XBRL Taxonomy Extension Schema Document. |
| 101.CAL+ | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB+ | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE+ | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF+ | XBRL Taxonomy Extension Definition Linkbase Document. |

* Filed with this report.

** Furnished with this report.

+

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations for the three and six month periods ended June 30, 2013 and 2012; (ii) Consolidated Statements of Comprehensive Income for the three and six month periods ended June 30, 2013 and 2012; (iii) Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012; (iv) Consolidated Statements of Cash Flows for the six month periods ended June 30, 2013 and 2012; and (v) Notes to Consolidated Financial Statements for the six months ended June 30, 2013.

A statement of computation of per share earnings is included in Note A of the Notes to Consolidated Financial Statements included in this report and is incorporated by reference into Part II of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TETRA Technologies, Inc.

Date: August 9, 2013

By: /s/Stuart M. Brightman
Stuart M. Brightman
President
Chief Executive Officer

Date: August 9, 2013

By: /s/Elijio V. Serrano
Elijio V. Serrano
Senior Vice President
Chief Financial Officer

Date: August 9, 2013

By: /s/Ben C. Chambers
Ben C. Chambers
Vice President – Accounting
Principal Accounting Officer

EXHIBIT INDEX

4.1	Note Purchase Agreement, dated April 29, 2013, by and among TETRA Technologies, Inc. and The Lincoln National Life Insurance Company and Lincoln Life & Annuity Company of New York (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on May 3, 2013 (SEC File No. 001-13455)).
4.2	First Amendment to Note Purchase Agreement dated and effective as of April 29, 2013, by and among TETRA Technologies, Inc. and The Lincoln National Life Insurance Company and Lincoln Life & Annuity Company of New York (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed on May 3, 2013 (SEC File No. 001-13455)).
4.3	Form of 4.00% Senior Notes due April 29, 2020 (incorporated by reference to Exhibit 4.3 to the Company's Form 8-K filed on May 3, 2013 (SEC File No. 001-13455)).
4.4	Subsidiary Guaranty dated April 29, 2013, executed by Compressco Field Services, L.L.C., EPIC Diving & Marine Services, LLC, TETRA Applied Technologies, LLC, TETRA International Incorporated and TETRA Production Testing Services, LLC, in favor of the holders of the 4.00% Senior Notes due April 29, 2020 (incorporated by reference to Exhibit 4.4 to the Company's Form 8-K filed on May 3, 2013 (SEC File No. 001-13455)).
10.1	TETRA Technologies, Inc. 2011 Amended and Restated Long Term Incentive Compensation Plan (incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 filed on May 9, 2013 (SEC File No. 333-188494)).
10.2	Forms of Employee Incentive Stock Option Agreement, Employee Nonqualified Stock Option Agreement, Employee Restricted Stock Agreement, Non-Employee Director Restricted Stock Agreement, Non-Employee Nonqualified Stock Option Agreement and Non-Employee Restricted Stock Agreement under the TETRA Technologies, Inc. 2011 Amended and Restated Long Term Incentive Compensation Plan (incorporated by reference to Exhibits 4.10, 4.11, 4.12, 4.13, 4.14 and 4.15, respectively to the Company's Registration Statement on Form S-8 filed on May 9, 2013 (SEC File No. 333-188494)).
10.3	Form of Change in Control Agreement (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 4, 2013 (SEC File No. 001-13455)).
31.1*	Certification Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification Furnished Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification Furnished Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS+	XBRL Instance Document.
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.

*Filed with this report.

**Furnished with this report.

+ Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations for the three and six month periods ended June 30, 2013 and 2012; (ii) Consolidated Statements of Comprehensive Income for the three and six month periods ended

June 30, 2013 and 2012; (iii) Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012; (iv) Consolidated Statements of Cash Flows for the six month periods ended June 30, 2013 and 2012; and (v) Notes to Consolidated Financial Statements for the six months ended June 30, 2013.