

TETRA TECHNOLOGIES INC
Form 10-Q
November 09, 2010

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-13455

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

Delaware
(State of incorporation)

74-2148293
(I.R.S. Employer Identification No.)

24955 Interstate 45 North
The Woodlands, Texas
(Address of principal executive offices)

77380
(zip code)

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

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

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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

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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company
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

As of November 5, 2010, there were 76,180,764 shares outstanding of the Company's Common Stock, \$0.01 par value per share.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

TETRA Technologies, Inc. and Subsidiaries
Consolidated Statements of Operations
(In Thousands, Except Per Share Amounts)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | |
| Product sales | \$ 91,624 | \$ 82,476 | \$ 308,732 | \$ 265,514 |
| Services and rentals | 120,294 | 171,499 | 350,697 | 401,656 |
| Total revenues | 211,918 | 253,975 | 659,429 | 667,170 |
| Cost of revenues: | | | | |
| Cost of product sales | 62,043 | 58,598 | 198,302 | 175,913 |
| Cost of services and rentals | 68,766 | 95,159 | 214,623 | 230,403 |
| Depreciation, depletion, amortization, and accretion | 52,330 | 37,445 | 134,799 | 114,322 |
| Total cost of revenues | 183,139 | 191,202 | 547,724 | 520,638 |
| Gross profit | 28,779 | 62,773 | 111,705 | 146,532 |
| General and administrative expense | 24,606 | 24,230 | 72,338 | 71,253 |
| Operating income | 4,173 | 38,543 | 39,367 | 75,279 |
| Interest expense, net | 4,484 | 2,969 | 12,750 | 9,557 |
| Other (income) expense, net | (107) | 1,687 | (2,189) | 61 |
| Income (loss) before taxes and discontinued operations | (204) | 33,887 | 28,806 | 65,661 |
| Provision (benefit) for income taxes | (391) | 11,075 | 9,528 | 22,269 |
| Income before discontinued operations | 187 | 22,812 | 19,278 | 43,392 |
| Loss from discontinued operations, net of taxes | (17) | (150) | (121) | (393) |
| Net income | \$ 170 | \$ 22,662 | \$ 19,157 | \$ 42,999 |
| Basic net income per common share: | | | | |
| Income before discontinued operations | \$ 0.00 | \$ 0.30 | \$ 0.25 | \$ 0.58 |
| Loss from discontinued operations | (0.00) | (0.00) | (0.00) | (0.01) |
| Net income | \$ 0.00 | \$ 0.30 | \$ 0.25 | \$ 0.57 |
| Average shares outstanding | 75,538 | 75,013 | 75,469 | 74,973 |

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Diluted net income per common share:

| | | | | |
|---------------------------------------|---------|---------|---------|---------|
| Income before discontinued operations | \$ 0.00 | \$ 0.30 | \$ 0.25 | \$ 0.58 |
| Loss from discontinued operations | (0.00) | (0.00) | (0.00) | (0.01) |
| Net income | \$ 0.00 | \$ 0.30 | \$ 0.25 | \$ 0.57 |
| Average diluted shares outstanding | 76,621 | 76,060 | 76,752 | 75,490 |

See Notes to Consolidated Financial Statements

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

| | September 30, 2010 (Unaudited) | December 31, 2009 |
|---|-----------------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 74,154 | \$ 33,394 |
| Restricted cash | 360 | 266 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$1,736 in 2010 and \$5,007 in 2009 | 164,817 | 181,038 |
| Inventories | 111,690 | 122,274 |
| Derivative assets | 12,159 | 19,926 |
| Prepaid expenses and other current assets | 52,525 | 33,905 |
| Assets of discontinued operations | 378 | 15 |
| Total current assets | 416,083 | 390,818 |
| Property, plant, and equipment | | |
| Land and building | 78,318 | 77,246 |
| Machinery and equipment | 472,766 | 458,675 |
| Automobiles and trucks | 43,244 | 42,432 |
| Chemical plants | 176,512 | 94,767 |
| Oil and gas producing assets (successful efforts method) | 711,850 | 676,692 |
| Construction in progress | 12,697 | 95,470 |
| Total property, plant, and equipment | 1,495,387 | 1,445,282 |
| Less accumulated depreciation and depletion | (722,415) | (628,908) |
| Net property, plant, and equipment | 772,972 | 816,374 |
| Other assets: | | |
| Goodwill | 99,005 | 99,005 |
| Patents, trademarks and other intangible assets, net of accumulated amortization of \$21,271 in 2010 and \$18,997 in 2009 | 11,356 | 13,198 |
| Deferred tax assets | 1,113 | 1,342 |
| Other assets | 33,100 | 26,862 |
| Total other assets | 144,574 | 140,407 |
| Total assets | \$ 1,333,629 | \$ 1,347,599 |

See Notes to Consolidated Financial Statements

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

| | September 30, 2010 (Unaudited) | December 31, 2009 |
|---|-----------------------------------|-------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 55,570 | \$ 57,418 |
| Accrued liabilities | 90,311 | 84,638 |
| Decommissioning and other asset retirement obligations, current | 92,443 | 77,891 |
| Deferred tax liabilities | 14,889 | 19,893 |
| Derivative liabilities | - | 2,618 |
| Current portion of long-term debt | 93,114 | - |
| Liabilities of discontinued operations | - | 17 |
| Total current liabilities | 346,327 | 242,475 |
| | | |
| Long-term debt, net | 215,035 | 310,132 |
| Deferred income taxes | 57,662 | 56,125 |
| Decommissioning and other asset retirement obligations, net | 109,792 | 146,219 |
| Other liabilities | 15,479 | 16,154 |
| Total long-term liabilities | 397,968 | 528,630 |
| | | |
| Commitments and contingencies | | |
| | | |
| Stockholders' equity: | | |
| Common stock, par value \$0.01 per share; 100,000,000 shares authorized; 77,655,545 shares issued at September 30, 2010, and 77,039,628 shares issued at December 31, 2009 | 777 | 770 |
| Additional paid-in capital | 200,456 | 193,718 |
| Treasury stock, at cost; 1,527,846 shares held at September 30, 2010, and 1,497,346 shares held at December 31, 2009 | (8,357) | (8,310) |
| Accumulated other comprehensive income | 13,807 | 26,822 |
| Retained earnings | 382,651 | 363,494 |
| Total stockholders' equity | 589,334 | 576,494 |
| Total liabilities and stockholders' equity | \$ 1,333,629 | \$ 1,347,599 |

See Notes to Consolidated Financial Statements

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

| | 2010 | Nine Months Ended September 30, | |
|--|-----------|---------------------------------|--|
| | | 2009 | |
| Operating activities: | | | |
| Net income | \$ 19,157 | \$ 42,999 | |
| Reconciliation of net income to cash provided by operating activities: | | | |
| Depreciation, depletion, amortization, and accretion | 110,780 | 111,073 | |
| Impairments of long-lived assets | 24,019 | 10,039 | |
| Provision (benefit) for deferred income taxes | (2,186) | 12,943 | |
| Stock compensation expense | 5,628 | 5,730 | |
| (Gain) loss on sale of property, plant, and equipment | (294) | (2,478) | |
| Proceeds from sale of cash flow hedge derivatives | - | 23,060 | |
| Non-cash income from sold hedge derivatives | (16,790) | - | |
| Other non-cash charges and credits | 10,068 | 18,334 | |
| Proceeds from insurance settlements | 39,772 | - | |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 4,622 | (5,387) | |
| Inventories | 10,294 | (214) | |
| Prepaid expenses and other current assets | (3,587) | 8,101 | |
| Trade accounts payable and accrued expenses | (8,400) | (17,360) | |
| Decommissioning liabilities | (74,998) | (71,791) | |
| Operating activities of discontinued operations | (380) | 203 | |
| Other | 1,655 | 2,045 | |
| Net cash provided by operating activities | 119,360 | 137,297 | |
| Investing activities: | | | |
| Purchases of property, plant, and equipment | (82,188) | (128,031) | |
| Business combinations | - | (18,105) | |
| Proceeds from sale of property, plant, and equipment | 2,689 | 1,901 | |
| Other investing activities | (844) | 2,664 | |
| Net cash used in investing activities | (80,343) | (141,571) | |
| Financing activities: | | | |
| Proceeds from long-term debt | 35 | 96,000 | |
| Principal payments on long-term debt | - | (90,346) | |
| Proceeds from exercise of stock options | 781 | 376 | |
| Excess tax benefit from exercise of stock options | 274 | - | |
| Net cash provided by financing activities | 1,090 | 6,030 | |
| Effect of exchange rate changes on cash | 653 | 2,519 | |

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| | | | | |
|---|----|--------|----|--------|
| Increase in cash and cash equivalents | | 40,760 | | 4,275 |
| Cash and cash equivalents at beginning of period | | 33,394 | | 3,882 |
| Cash and cash equivalents at end of period | \$ | 74,154 | \$ | 8,157 |
| Supplemental cash flow information: | | | | |
| Interest paid | \$ | 11,314 | \$ | 13,017 |
| Income taxes paid | | 26,883 | | 10,909 |
| Supplemental disclosure of non-cash investing and financing activities: | | | | |
| Adjustment of fair value of decommissioning liabilities | | | | |
| capitalized to oil and gas properties | \$ | 27,063 | \$ | 21,708 |

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

NOTE A – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

We are a geographically diversified oil and gas services company focused on completion fluids and other products, production testing, wellhead compression, and selected offshore services including well plugging and abandonment, decommissioning, and diving, with a concentrated domestic exploration and production business. 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, 2009.

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 reflected on our balance sheet as of September 30, 2010, includes funds related to agreed repairs to be expended at one of our former Fluids Division facility locations. This cash will remain restricted until such time as the associated project is completed, which we expect to occur during the next twelve months.

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 September 30, 2010, and December 31, 2009, are as follows:

| | September 30, 2010 | December 31, 2009 |
|----------------|-----------------------|----------------------|
| | (In Thousands) | |
| Finished goods | \$ 79,024 | \$ 88,704 |

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| | | |
|-----------------------|------------|------------|
| Raw materials | 5,813 | 3,436 |
| Parts and supplies | 25,549 | 26,060 |
| Work in progress | 1,304 | 4,074 |
| | \$ 111,690 | \$ 122,274 |

Repair Costs and Insurance Recoveries

Maritech incurred significant damage from hurricanes during 2005 and 2008. Hurricane damage repair efforts consist of the repair of damaged facilities and equipment, well intervention, abandonment, decommissioning, and debris removal associated with destroyed offshore platforms, construction of replacement platforms and facilities, and redrilling of destroyed wells. During the first nine months of 2010, we expended approximately \$50.6 million for these hurricane repair efforts. As of September 30, 2010, we estimate that the remaining future well intervention, abandonment, decommissioning, debris removal, platform reconstruction, and well redrill efforts associated with the platforms destroyed by the hurricanes during 2005 and 2008 will cost approximately \$60 to \$75 million net to our interest before any insurance recoveries. Approximately \$30 to \$40 million of this cost relates to platforms destroyed by Hurricane Ike during 2008. Approximately \$42 million of our total future cost estimate has been accrued as part of Maritech's decommissioning liability, and an additional approximate \$18 to \$33 million relates primarily to the estimated cost to finalize a newly installed offshore platform at Maritech's East Cameron 328 field and complete the redrilling of several wells at this location. We have accrued an estimate for hurricane remediation costs that are part of Maritech's decommissioning liabilities. Actual hurricane repair costs could exceed these estimates and, depending on the nature of the cost, could result in significant charges to earnings in future periods. See below for a discussion of our remaining insurance coverage associated with hurricane damage repairs.

We typically maintain insurance protection that we believe to be customary and in amounts sufficient to reimburse us for a portion of our casualty losses, including for a portion of the repair, well intervention, abandonment, decommissioning, and debris removal costs associated with the damages incurred from named windstorms and hurricanes. In addition, other damages, such as the value of lost inventory and the cost to replace a sunken transport barge which was lost in 2009, are also covered by insurance. Our insurance coverage is subject to certain overall coverage limits and deductibles. For the Maritech hurricane damages caused by Hurricane Ike during 2008, we anticipate that those damages will exceed these overall coverage limits. With regard to costs incurred that we believe will qualify for coverage under our various insurance policies, we recognize anticipated insurance recoveries when collection is deemed probable. Any recognition of anticipated insurance recoveries is used to offset the original charge to which the insurance recovery relates. The amount of anticipated insurance recoveries is either included in accounts receivable or is recorded as an offset to Maritech's decommissioning liabilities in the accompanying consolidated balance sheets.

In March 2010, Maritech collected approximately \$39.8 million of insurance proceeds associated with Hurricane Ike, which included the settlement of certain coverage at an amount less than the applicable coverage limit. This amount collected was greater than the covered hurricane repair, well intervention, and abandonment costs incurred to date, with the excess representing an advance payment of costs anticipated to be incurred in the future. The collection of these settlement proceeds resulted in the extinguishment of all of Maritech's insurance receivables, the reversal of the future decommissioning costs previously capitalized to certain oil and gas properties, the reversal of anticipated insurance recoveries that had been netted against certain decommissioning liabilities, and approximately \$2.2 million of pre-tax insurance gains that were credited to earnings during the first quarter. Following the collection of the \$39.8 million insurance settlement proceeds in March 2010, Maritech has additional maximum remaining coverage available relating to hurricane damage repairs of approximately \$29.5 million, all of which relates to Hurricane Ike.

The changes in anticipated insurance recoveries, including recoveries associated with a sunken transport barge and other non-hurricane related claims, during the nine months ended September 30, 2010, are as follows:

| | Nine Months Ended September 30, 2010 (In Thousands) |
|-------------------|---|
| Beginning balance | \$ 26,992 |

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Activity in the period:

| | | |
|--------------------------------------|---------|-------|
| Claim-related expenditures | 370 | |
| Insurance reimbursements | (26,007 |) |
| Contested insurance recoveries | (192 |) |
| Ending balance at September 30, 2010 | \$ | 1,163 |

Anticipated insurance recoveries that have been reflected as a reduction of our decommissioning liabilities were \$0 at September 30, 2010, and \$10.3 million at December 31, 2009. Anticipated insurance recoveries that are included in accounts receivable were \$1.2 million and \$16.7 million at September 30, 2010, and December 31, 2009, respectively.

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 | | Nine Months Ended | |
|--|--------------------|-----------------------|-------------------|-----------------------|
| | 2010 | September 30, 2009 | 2010 | September 30, 2009 |
| Number of weighted average common shares outstanding | 75,538,455 | 75,012,672 | 75,469,030 | 74,972,661 |
| Assumed exercise of stock options | 1,082,591 | 1,046,922 | 1,283,383 | 516,884 |
| Average diluted shares outstanding | 76,621,046 | 76,059,594 | 76,752,413 | 75,489,545 |

For the three month periods ended September 30, 2010 and 2009, the calculations of the average diluted shares outstanding excludes the impact of 2,668,312 and 2,754,253 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. For the nine month periods ended September 30, 2010 and 2009, the calculations of the average diluted shares outstanding exclude the impact of 2,311,805 and 3,531,826 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 this 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 the 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 costs 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.

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 under 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 value of our long-term Senior Notes at September 30, 2010, was approximately \$332.9 million compared to a carrying amount of approximately \$308.1 million, as current rates are more favorable than the Senior Note interest rates. We calculate the fair value of our Senior Notes internally, using current market conditions and average cost of debt. We have not calculated or disclosed recurring fair value measurements of non-financial assets and non-financial liabilities.

We also utilize fair value measurements on a recurring basis in the accounting for our derivative contracts used to hedge a portion of our oil and gas production cash flows. For these fair value measurements, we utilize both a market approach and income approach, as we compare forward oil and natural gas pricing data from published sources over the remaining derivative contract term to the contract swap price and calculate a fair value using market discount rates. We have historically had no transfers of recurring fair value measurements between hierarchy levels. A summary of these fair value measurements as of September 30, 2010, and December 31, 2009, is as follows:

| Description | Total as of September 30, 2010 | Fair Value Measurements as of September 30, 2010 Using | | |
|--|--------------------------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (In Thousands) | | | | |
| Asset for natural gas swap contracts | \$ 10,269 | \$ - | \$ 10,269 | \$ - |
| Asset for oil swap contracts | 2,407 | - | 2,407 | - |
| Total | \$ 12,676 | | | |
| Description | Total as of December 31, | Fair Value Measurements as of December 31, 2009 Using | | |
| | | Quoted Prices in Active Markets for Identical Assets or Liabilities | Significant Other Observable Inputs | Significant Unobservable Inputs |

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| Description | 2009 | (Level 1) | (Level 2) | (Level 3) |
|--------------------------------------|-----------|----------------|-----------|-----------|
| | | (In Thousands) | | |
| Asset for natural gas swap contracts | \$ 19,926 | \$ - | \$ 19,926 | \$ - |
| Liability for oil swap contracts | (2,618) | - | (2,618) | - |
| Total | \$ 17,308 | | | |

During the three months ended September 30, 2010, a portion of the carrying value of certain Maritech oil and gas properties was charged to earnings as an impairment of \$14.0 million. The change in the fair value of these properties was due to decreased expected future cash flows based on forward pricing data from published sources, and was primarily due to the impact of increased estimated asset

retirement obligations, lower than expected results from development activities, weaker expected future natural gas prices, and the decreased fair value of certain probable and possible reserves as reflected in recent market transactions. Because published forward pricing data was applied to estimated oil and gas reserve volumes based on our internally prepared reserve estimates, such fair value calculation is based on significant unobservable inputs (Level 3) in accordance with the fair value hierarchy.

A summary of nonrecurring fair value measurements as of September 30, 2010 and 2009, using the fair value hierarchy is as follows:

| Description | Total as of September 30, 2010 | Fair Value Measurements as of September 30, 2010 Using | | | Year-to-Date Impairment Losses |
|---|--------------------------------------|--|---|--|--------------------------------------|
| | | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) (In Thousands) | Significant Unobservable Inputs (Level 3) | |
| Impairments of oil and gas properties | \$ 25,943 | \$ - | \$ - | \$ 25,943 | \$ 23,111 |
| Other impairments | - | - | - | - | 908 |
| | \$ 25,943 | | | | \$ 24,019 |

| Description | Total as of September 30, 2009 | Fair Value Measurements as of September 30, 2009 Using | | | Year-to-Date Impairment Losses |
|---|--------------------------------------|--|---|--|--------------------------------------|
| | | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) (In Thousands) | Significant Unobservable Inputs (Level 3) | |
| Impairments of oil and gas properties | \$ 2,253 | \$ - | \$ - | \$ 2,253 | \$ 2,907 |
| Impairment of investment in unconsolidated joint venture | - | - | - | - | 6,790 |
| Other impairments | - | - | - | - | 342 |
| | \$ 2,253 | | | | \$ 10,039 |

New Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) published Accounting Standards Update (ASU) 2009-13, "Revenue Recognition (Topic 605), Multiple Deliverable Revenue Arrangements," which establishes the accounting and reporting guidance for arrangements under which service providers will perform multiple revenue-generating activities. Specifically, this guidance addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. Additional disclosures of multiple deliverable arrangements will also be required. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The adoption of the accounting and disclosure requirements of this ASU will not have a significant impact on our financial statements.

In January 2010, the FASB published ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements," which requires new disclosures about transfers in and out of fair value hierarchy levels, requires more detailed disclosures about activity in Level 3 fair value measurements, and clarifies existing disclosure requirements about asset and liability aggregation, inputs, and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure requirements of activity in Level 3 fair value measurements, which become effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the disclosure requirements of this ASU did not have a significant impact on our financial statements, and the disclosure requirements of activity in Level 3 fair value measurements will not have a significant impact on our financial statements.

NOTE B – ACQUISITION

In July 2010, our Maritech subsidiary purchased interests in certain onshore oil and gas properties located in McMullen County, Texas from Texoz E&P Holding, Inc. The acquired properties were recorded at a cost of approximately \$6.7 million.

NOTE C – LONG-TERM DEBT AND OTHER BORROWINGS

Long-term debt consists of the following:

| | | September 30, 2010 | December 31, 2009 |
|--|-----------------------|--------------------|-------------------|
| | Scheduled Maturity | (In Thousands) | |
| Bank revolving line of credit facility | June 26, 2011 | \$ - | \$ - |
| 5.07% Senior Notes, Series 2004-A | September 30, 2011 | 55,000 | 55,000 |
| 4.79% Senior Notes, Series 2004-B | September 30, 2011 | 38,114 | 40,132 |
| 5.90% Senior Notes, Series 2006-A | April 30, 2016 | 90,000 | 90,000 |
| 6.30% Senior Notes, Series 2008-A | April 30, 2013 | 35,000 | 35,000 |
| 6.56% Senior Notes, Series 2008-B | April 30, 2015 | 90,000 | 90,000 |
| 5.09% Senior Notes, Series 2010-A | December 15, 2017 | - | - |
| 5.67% Senior Notes, Series 2010-B | December 15, 2020 | - | - |
| European bank credit facility | | - | - |
| Other | | 35 | - |
| | | 308,149 | 310,132 |
| Less current portion | | (93,114) | - |
| Total long-term debt, net | | \$ 215,035 | \$ 310,132 |

In September 2010, we entered into an agreement whereby we expect to issue, and sell through a private placement, \$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 Master Note Purchase Agreement dated September 30, 2010. The 2010 Senior Notes are to be sold in the United States to accredited investors pursuant to an exemption from the Securities Act of 1933. Closing of the issuance and sale of the 2010 Senior Notes and funding of the proceeds from the 2010 Senior Notes is scheduled to occur on December 15, 2010 upon satisfaction of certain conditions, and the proceeds are expected to be used to repay the 2004 Senior Notes at or prior to their maturity in September 2011.

Pursuant to the Master Note Purchase Agreement, the Series 2010-A Senior Notes are to bear interest at the fixed rate of 5.09% and mature on December 15, 2017. The Series 2010-B Senior Notes are to bear interest at the fixed rate of

5.67% and mature on December 15, 2020. Interest on the 2010 Senior Notes will be due semiannually on June 15 and December 15 of each year. The terms of all of our Senior Notes (including the 2010 Senior Notes) are similar. 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 agreements governing all of our Senior Notes, including the Master Note Purchase Agreement dated September 30, 2010 (collectively Senior Note Purchase Agreements), 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 Senior Note Purchase Agreements 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 our Senior Note Purchase Agreements as of September 30, 2010. Upon the occurrence and during the continuation of an event of default under the Senior Note Purchase Agreements, 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.

In October 2010, we amended our existing bank revolving credit facility agreement with a syndication of banks whereby the credit facility was decreased from \$300 million to \$278 million and its scheduled maturity was extended from June 2011 to October 2015. 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. As of November 9, 2010, we have no outstanding balance under the amended credit facility. The amended credit facility remains unsecured and is guaranteed by certain of our domestic subsidiaries. Under the amended terms, borrowings generally bear interest at LIBOR plus 1.5% to 2.5%, depending on a certain financial ratio, and we will pay a commitment fee on unused portions of the facility at a rate of 0.225% to 0.500%, also depending on this financial ratio.

Similar to the previous credit facility agreement, the amended credit facility agreement contains customary covenants and other restrictions, including certain financial ratio covenants. In addition, the amended credit facility includes cross-default provisions relating to any of our other indebtedness that is 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 facility. Defaults under the amended credit facility that are not timely remedied could result in a termination of all commitments of the lenders and an acceleration of any outstanding loans and credit obligations.

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 remaining well intervention, abandonment, decommissioning, and debris removal costs associated with offshore platforms that were previously destroyed by hurricanes. The amount of decommissioning liabilities recorded by Maritech is reduced by amounts allocable to joint interest owners, anticipated insurance recoveries, and any contractual amount to be paid by the previous owner of the oil and gas property when the liabilities are satisfied.

The changes in the asset retirement obligations during the three month and nine month periods ended September 30, 2010 and 2009, are as follows:

| | 2010 | Three Months Ended September 30, 2009 (In Thousands) |
|--|------------|---|
| Beginning balance as of June 30 | \$ 216,147 | \$ 229,996 |
| Activity in the period: | | |
| Accretion of liability | 1,392 | 1,950 |
| Retirement obligations incurred | - | - |
| Revisions in estimated cash flows | 19,897 | 12,832 |
| Settlement of retirement obligations | (35,201) | (24,590) |
| Ending balance as of September 30 | \$ 202,235 | \$ 220,188 |
| | 2010 | Nine Months Ended September 30, 2009 (In Thousands) |
| Beginning balance as of December 31 of | | |

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| | | | | | |
|---|----|---------|---|----|---------|
| the preceding year | \$ | 224,110 | | \$ | 248,725 |
| Activity in the period: | | | | | |
| Accretion of liability | | 4,090 | | | 6,350 |
| Retirement obligations incurred | | - | | | - |
| Revisions in estimated cash flows | | 42,081 | | | 36,198 |
| Settlement of retirement obligations | | (68,046 |) | | (71,085 |
| Ending balance as of September 30 | \$ | 202,235 | | \$ | 220,188 |

NOTE E – HEDGE CONTRACTS

We are exposed to financial and market risks that affect our businesses. We have market risk exposure in the sales prices we receive for our oil and gas production. We have currency exchange rate risk exposure related to specific 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 facility, to the extent

we have debt outstanding, we face market risk exposure related to changes in applicable interest rates. We have concentrations of credit risk as a result of trade receivables from companies in the energy industry. Our financial risk management activities 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 a significant portion of our oil and gas production and for certain foreign currency transactions. We are exposed to the volatility of oil and gas prices for the portion of our oil and gas production that is not hedged. We formally document all 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.

Derivative Hedge Contracts

As of September 30, 2010, we had the following cash flow hedging swap contracts outstanding relating to a portion of our Maritech subsidiary's oil and gas production:

| Derivative Contracts | Aggregate Daily Volume | Weighted Average Contract Price | Contract Period |
|----------------------------|------------------------|---------------------------------|-----------------|
| Oil swap contracts | 3,000 barrels/day | \$80.77/barrel | 2010 |
| Oil swap contracts | 2,000 barrels/day | \$87.68/barrel | 2011 |
| Natural gas swap contracts | 20,000 MMBtu/day | \$8.147/MMBtu | 2010 |

We believe that our swap agreements are "highly effective cash flow hedges," in managing the volatility of future cash flows associated with our oil and gas production. During the second quarter of 2009, we liquidated certain cash flow hedging swap contracts associated with Maritech's oil production in exchange for cash of approximately \$23.1 million. The effective portion of the change in derivative fair value (i.e., that portion of the change in the derivative's fair value that offsets the corresponding change in the cash flows of the hedged transaction) is initially reported as a component of accumulated other comprehensive income, which is classified within stockholders' equity. This component of accumulated other comprehensive income associated with cash flow hedge derivative contracts, including those derivative contracts that have been liquidated, will be subsequently reclassified into product sales revenues, utilizing the specific identification method, when the hedged exposure affects earnings (i.e., when hedged oil and gas production volumes are reflected in revenues). As of September 30, 2010, approximately \$9.4 million of the total balance (which was approximately \$9.7 million) of accumulated other comprehensive income associated with cash flow hedge derivatives is expected to be reclassified into product sales revenue over the next twelve month period. Any "ineffective" portion of the change in the derivative's fair value is recognized in earnings immediately.

The fair value of hedging instruments reflects our best estimates and is based upon exchange or over-the-counter quotations, whenever they are available. Quoted valuations may not be available. Where quotes are not available, we utilize other valuation techniques or models to estimate fair values. These modeling techniques require us to make estimations of future prices, price correlation, and market volatility and liquidity. The actual results may differ from these estimates, and these differences can be positive or negative. The fair value of our oil and natural gas swap contracts as of September 30, 2010, and December 31, 2009, is as follows:

| Derivatives designated as hedging instruments | Balance Sheet Location | Fair Value at | |
|---|------------------------|--------------------|-------------------|
| | | September 30, 2010 | December 31, 2009 |
| | | (In Thousands) | |

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| | | | |
|---|---------------------|-----------|-----------|
| Natural gas swap contracts | Current assets | \$ 10,269 | \$ 19,926 |
| Oil swap contracts | Current assets | 1,890 | - |
| Oil swap contracts | Long-term assets | 517 | - |
| Oil swap contracts | Current liabilities | - | (2,618) |
| Total derivatives designated as hedging instruments | | \$ 12,676 | \$ 17,308 |

Oil and natural gas swap assets that are classified as current assets or current liabilities relate to the portion of the derivative contracts associated with hedged oil and gas production to occur over the next twelve month period. None of the oil and natural gas swap contracts contain credit risk related contingent features that would require us to post assets as collateral for contracts that are classified as liabilities. Pretax gains and losses associated with oil and gas derivative swap contracts for the three month and nine month periods ended September 30, 2010 and 2009, are summarized below:

| Derivative Swap Contracts | Three Months Ended September 30, 2010 | | |
|---|---------------------------------------|-------------|----------|
| | Oil | Natural Gas | Total |
| | (In Thousands) | | |
| Amount of pretax gain reclassified from accumulated other comprehensive income into product sales revenue (effective portion) | \$6,753 | \$6,384 | \$13,137 |
| Amount of pretax gain (loss) from change in derivative fair value recognized in other comprehensive income | (4,872 |) 1,938 | (2,934) |
| Amount of pretax gain (loss) recognized in other income (expense) (ineffective portion) | - | (108) | (108) |

| Derivative Swap Contracts | Three Months Ended September 30, 2009 | | |
|---|---------------------------------------|-------------|----------|
| | Oil | Natural Gas | Total |
| | (In Thousands) | | |
| Amount of pretax gain reclassified from accumulated other comprehensive income into product sales revenue (effective portion) | \$272 | \$11,593 | \$11,865 |
| Amount of pretax gain (loss) from change in derivative fair value recognized in other comprehensive income | 3,502 | (751) | 2,751 |
| Amount of pretax gain (loss) recognized in other income (expense) (ineffective portion) | (8) | (689) | (697) |

| Derivative Swap Contracts | Nine Months Ended September 30, 2010 | | |
|---|--------------------------------------|-------------|----------|
| | Oil | Natural Gas | Total |
| | (In Thousands) | | |
| Amount of pretax gain reclassified from accumulated other comprehensive income into product sales revenue (effective portion) | \$16,821 | \$18,609 | \$35,430 |
| Amount of pretax gain (loss) from change in derivative fair value recognized in other comprehensive income | 4,577 | 9,225 | 13,802 |
| Amount of pretax gain (loss) recognized in other income (expense) (ineffective portion) | 125 | 107 | 232 |

| Derivative Swap Contracts | Nine Months Ended September 30, 2009 | | |
|---|--------------------------------------|-------------|----------|
| | Oil | Natural Gas | Total |
| | (In Thousands) | | |
| Amount of pretax gain reclassified from accumulated other comprehensive income into product sales revenue (effective portion) | \$7,154 | \$30,351 | \$37,505 |
| Amount of pretax gain (loss) from change in derivative fair value recognized in other comprehensive income | (8,219) | 18,525 | 10,306 |
| Amount of pretax gain (loss) recognized in other income (expense) (ineffective portion) | (292) | (1,931) | (2,223) |

Other Hedge Contracts

Our long-term debt includes borrowings that are designated as a hedge of our net investment in our European calcium chloride operations. The hedge is considered to be effective, since the debt balance designated as the hedge is less than or equal to the net investment in the foreign operation. At September 30, 2010, we had 28 million euros (which was approximately \$38.1 million equivalent) designated as a hedge of our net investment in this foreign operation. Changes in the foreign currency exchange rate have resulted in a cumulative change to the cumulative translation adjustment account of \$3.4 million, net of taxes, at September 30, 2010, with no ineffectiveness recorded.

NOTE F – COMPREHENSIVE INCOME

Comprehensive income for the three month and nine month periods ended September 30, 2010 and 2009, is as follows:

| | 2010 | | Three Months Ended September 30, 2009 (In Thousands) |
|---|------------|---|---|
| Net income | \$ 170 | | \$ 22,662 |
| Net change in derivative fair value, net of taxes of \$(1,051) and \$1,283, respectively | (1,775) |) | 2,165 |
| Reclassification of derivative fair value into product sales revenues, net of taxes of \$(4,887) and \$(4,417), respectively | (8,250) |) | (7,448) |
| Foreign currency translation adjustment, net of taxes of \$734 and \$(183), respectively | 3,016 | | 1,961 |
| Comprehensive income | \$ (6,839) |) | \$ 19,340 |

| | 2010 | | Nine Months Ended September 30, 2009 (In Thousands) |
|---|-----------|---|--|
| Net income | \$ 19,157 | | \$ 42,999 |
| Net change in derivative fair value, net of taxes of \$5,048 and \$4,661, respectively | 8,522 | | 7,868 |
| Reclassification of derivative fair value into product sales revenues, net of taxes of \$(13,180) and \$(13,953), respectively | (22,250) |) | (23,552) |
| Foreign currency translation adjustment, net of taxes of \$(914) and \$(1,806), respectively | 713 | | 6,214 |
| Comprehensive income | \$ 6,142 | | \$ 33,529 |

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

certainly, management does not reasonably expect these matters to have a material adverse impact on the financial statements.

Class Action Lawsuit – Between March 27, 2008, and April 30, 2008, two putative class action complaints were filed in the United States District Court for the Southern District of Texas (Houston Division) against us and certain former officers by certain stockholders on behalf of themselves and other stockholders who purchased our common stock between January 3, 2007, and October 16, 2007. The complaints assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The complaints allege that the defendants violated the federal securities laws during the period by, among other things, disseminating false and misleading statements and/or concealing material facts concerning our current and prospective business and financial results. The complaints also allege that, as a result of these actions, our stock price was artificially inflated during the class period, which enabled our insiders to sell their personally-held shares for a substantial gain. The complaints seek unspecified compensatory damages, costs, and expenses. On May 8, 2008, the Court consolidated these complaints as *In re TETRA Technologies, Inc. Securities Litigation*, No. 4:08-cv-0965 (S.D. Tex.). On August 27, 2008, Lead Plaintiff Fulton County Employees' Retirement System filed its Amended Consolidated Complaint. On October 28, 2008, we filed a motion to dismiss the federal class action. On July 9, 2009, the Court issued an opinion dismissing, without prejudice, most of the claims in this lawsuit, but permitting plaintiffs to proceed on their allegations regarding disclosures pertaining to the collectability of certain insurance receivables. On June 16, 2010, defendants and plaintiff's counsel reached a settlement agreement whereby all claims against defendants will be released in exchange for a payment of \$8.25 million, which is expected to be paid by our insurers.

On September 29, 2010, the Court approved the settlement and entered the Order and Final Judgment terminating the class action lawsuit.

Derivative Lawsuit – Between May 28, 2008 and June 27, 2008, two petitions were filed by alleged stockholders in the District Courts of Harris County, Texas, 133rd and 113th Judicial Districts, purportedly on our behalf. The suits name our directors and certain officers as defendants. The factual allegations in these lawsuits mirror those in the class action lawsuit, and the claims are for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. The petitions seek disgorgement, costs, expenses, and unspecified equitable relief. On September 22, 2008, the 133rd District Court consolidated these complaints as *In re TETRA Technologies, Inc. Derivative Litigation*, Cause No. 2008-23432 (133rd Dist. Ct., Harris County, Tex.), and appointed Thomas Prow and Mark Patricola as Co-Lead Plaintiffs. This lawsuit was stayed by agreement of the parties pending the Court's ruling on our motion to dismiss the federal class action. On September 8, 2009, the plaintiffs in this state court action filed a consolidated petition which makes factual allegations similar to the surviving allegations in the federal lawsuit. On April 19, 2010, the Court granted our motion to abate the suit, based on plaintiff's inability to demonstrate derivative standing. On June 8, 2010, we received a letter from plaintiff's counsel demanding that our board of directors take action against the defendants named in the previously filed derivative lawsuit. Our board is currently evaluating the best course of action to take in response to the demand letter.

At this stage, it is impossible to predict the outcome of the derivative lawsuit or its impact upon us. We continue to believe that the allegations made in the derivative lawsuit are without merit, and we intend to continue to seek dismissal of and vigorously defend against this lawsuit. While a successful outcome cannot be guaranteed, we do not reasonably expect this lawsuit to have a material adverse effect.

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.

In August of 2009, the Environmental Protection Agency (EPA), pursuant to Sections 308 and 311 of the Clean Water Act (CWA), served a request for information with regard to a release of zinc bromide that occurred from one of our transport barges on the Mississippi River on March 11, 2009. We timely filed a response to that request for information in August 2009. In January 2010, the EPA issued a Notice of Violation and Opportunity to Show Cause related to the spill. We met with the EPA in April 2010 to discuss potential violations and penalties. It has been agreed that no injunctive relief will be required. We have finalized a joint stipulation of settlement with the EPA whereby we are responsible for a penalty of \$487,000, which will be payable later during 2010. We expect this penalty to be covered by insurance.

NOTE H – INDUSTRY SEGMENTS

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

Our Fluids Division manufactures and markets clear brine fluids, additives, and other associated products and services to the oil and gas industry for use in well drilling, completion, and workover operations both in the United States and

in certain regions of Latin America, Europe, the Middle East, and other international locations. The Division also markets a variety of liquid and dry calcium chloride products, including products manufactured at its production facilities, to a variety of markets outside the energy industry.

Our Offshore Division consists of two operating segments: Offshore Services and Maritech, an oil and gas exploration, exploitation, and production segment. The Offshore Services segment provides (1) downhole and subsea services such as plugging and abandonment, workover, and wireline services, (2) construction and decommissioning services for offshore oil and gas platforms and pipelines, including hurricane damage remediation utilizing heavy lift barges and cutting technologies, and (3) diving services involving conventional and saturated air diving and the operation of several dive support vessels.

The Maritech segment consists of our Maritech subsidiary, which is an oil and gas exploration, exploitation, and production company focused in the offshore and onshore U.S. Gulf of Mexico region. Maritech periodically acquires oil and gas properties in order to replenish or expand its production operations and to provide additional development and exploitation opportunities. The Offshore Division's Offshore Services segment performs a significant portion of the well abandonment and decommissioning services required by Maritech.

Our Production Enhancement Division consists of two operating segments: Production Testing and Compressco. The Production Testing segment provides production testing services in many of the major oil and gas basins in the United States, as well as onshore basins in Latin America, Northern Africa, the Middle East, and other international markets.

The Compressco segment provides wellhead compression-based production enhancement services and products throughout many of the onshore producing regions of the United States, as well as certain oil and gas basins in Canada, Mexico, South America, Europe, Asia, and other international locations. These compression services can improve the value of natural gas and oil wells by increasing daily production and total recoverable reserves.

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

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

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------------|--------------------|-----------------------|-------------------|-----------------------|
| | 2010 | September 30, 2009 | 2010 | September 30, 2009 |
| | (In Thousands) | | | |
| Revenues from external customers | | | | |
| Product sales | | | | |
| Fluids Division | \$41,818 | \$38,819 | \$155,672 | \$132,534 |
| Offshore Division | | | | |
| Offshore Services | 831 | 656 | 1,978 | 2,226 |
| Maritech | 48,068 | 42,584 | 143,862 | 127,572 |
| Intersegment eliminations | - | - | - | - |
| Total Offshore Division | 48,899 | 43,240 | 145,840 | 129,798 |
| Production Enhancement Division | | | | |
| Production Testing | - | - | 3,610 | - |
| Compressco | 907 | 417 | 3,610 | 3,182 |
| Total Production Enhancement Division | 907 | 417 | 7,220 | 3,182 |
| Consolidated | \$91,624 | \$82,476 | \$308,732 | \$265,514 |

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| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------------------|-------------------|-----------------------|
| | 2010 | September 30, 2009 | 2010 | September 30, 2009 |
| | (In Thousands) | | | |
| Revenues from external customers | | | | |
| Services and rentals | | | | |
| Fluids Division | \$ 16,036 | \$ 12,073 | \$ 47,740 | \$ 44,217 |
| Offshore Division | | | | |
| Offshore Services | 87,248 | 130,652 | 222,696 | 269,351 |
| Maritech | 515 | 735 | 1,655 | 2,367 |
| Intersegment eliminations | (27,996) | (11,574) | (51,292) | (40,600) |
| Total Offshore Division | 59,767 | 119,813 | 173,059 | 231,118 |
| Production Enhancement Division | | | | |
| Production Testing | 25,712 | 19,070 | 73,509 | 61,975 |
| Compressco | 18,779 | 20,543 | 56,389 | 64,346 |
| Total Production Enhancement Division | 44,491 | 39,613 | 129,898 | 126,321 |
| Consolidated | 120,294 | 171,499 | 350,697 | 401,656 |
| Intersegment revenues | | | | |
| Fluids Division | 8 | (3) | 40 | 38 |
| Offshore Division | | | | |
| Offshore Services | 742 | 174 | 946 | 206 |
| Maritech | - | - | 35 | - |
| Intersegment eliminations | - | - | - | - |
| Total Offshore Division | 742 | 174 | 981 | 206 |
| Production Enhancement Division | | | | |
| Production Testing | 24 | - | 28 | 1 |
| Compressco | - | - | - | - |
| Total Production Enhancement Division | 24 | - | 28 | 1 |
| Intersegment eliminations | (774) | (171) | (1,049) | (245) |
| Consolidated | - | - | - | - |
| Total revenues | | | | |
| Fluids Division | 57,862 | 50,889 | 203,452 | 176,789 |
| Offshore Division | | | | |
| Offshore Services | 88,821 | 131,482 | 225,620 | 271,783 |
| Maritech | 48,583 | 43,319 | 145,552 | 129,939 |
| Intersegment eliminations | (27,996) | (11,574) | (51,292) | (40,600) |
| Total Offshore Division | 109,408 | 163,227 | 319,880 | 361,122 |
| Production Enhancement Division | | | | |
| Production Testing | 25,736 | 19,070 | 77,147 | 61,976 |
| Compressco | 19,686 | 20,960 | 59,999 | 67,528 |
| Total Production Enhancement Division | 45,422 | 40,030 | 137,146 | 129,504 |
| Intersegment eliminations | (774) | (171) | (1,049) | (245) |
| Consolidated | \$ 211,918 | \$ 253,975 | \$ 659,429 | \$ 667,170 |
| Income before taxes and discontinued operations | | | | |

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| | | | | | | | | |
|---------------------------------------|----------|------|-----------|------|-----------|------|-----------|------|
| Fluids Division | \$ 1,716 | | \$ 5,800 | | \$ 18,093 | | \$ 19,169 | |
| Offshore Division | | | | | | | | |
| Offshore Services | 18,323 | | 40,250 | | 30,151 | | 62,630 | |
| Maritech | (14,260 |) | (7,158 |) | (4,573 |) | (9,403 |) |
| Intersegment eliminations | (52 |) | 1,120 | | 520 | | 622 | |
| Total Offshore Division | 4,011 | | 34,212 | | 26,098 | | 53,849 | |
| Production Enhancement Division | | | | | | | | |
| Production Testing | 4,233 | | 2,850 | | 11,751 | | 15,931 | |
| Compressco | 3,835 | | 5,277 | | 13,465 | | 17,850 | |
| Total Production Enhancement Division | 8,068 | | 8,127 | | 25,216 | | 33,781 | |
| Corporate overhead | (13,999 |)(1) | (14,252 |)(1) | (40,601 |)(1) | (41,138 |)(1) |
| Consolidated | \$ (204 |) | \$ 33,887 | | \$ 28,806 | | \$ 65,661 | |

| | 2010 | September 30, 2009 |
|---------------------------------------|----------------|-----------------------|
| | (In Thousands) | |
| Total assets | | |
| Fluids Division | \$ 379,605 | \$ 370,425 |
| Offshore Division | | |
| Offshore Services | 173,913 | 237,338 |
| Maritech | 334,554 | 398,089 |
| Intersegment eliminations | (1,725) | (2,280) |
| Total Offshore Division | 506,742 | 633,147 |
| Production Enhancement Division | | |
| Production Testing | 105,613 | 103,871 |
| Compressco | 193,105 | 205,623 |
| Total Production Enhancement Division | 298,718 | 309,494 |
| Corporate | 148,564 (2) | 102,041 (2) |
| Consolidated | \$ 1,333,629 | \$ 1,415,107 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| | (In Thousands) | | | |
| General and administrative expense | \$ 7,860 | \$ 9,559 | \$ 25,629 | \$ 27,127 |
| Depreciation and amortization | 724 | 784 | 2,227 | 2,231 |
| Interest expense | 4,346 | 2,969 | 12,625 | 9,686 |
| Other general corporate (income) expense, net | 1,069 | 940 | 120 | 2,094 |
| Total | \$ 13,999 | \$ 14,252 | \$ 40,601 | \$ 41,138 |

(2) Includes assets of discontinued operations.

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

Business Overview

Hampered by the impact of lower natural gas prices and decreased offshore services activity during the third quarter of 2010, certain of our businesses reported significant decreases in activity and profitability compared to the prior year period. As a result, consolidated revenues and net income decreased significantly compared to levels reported during 2009. In particular, our Offshore Services segment saw particularly steep decreases from the record levels of activity and profitability reported in the prior year period. Offshore operations for our Fluids Division were also decreased, partially as a result of decreased activity levels that reflected the impact of the U.S. deepwater drilling moratorium, which was lifted in October 2010, and related regulatory issues. Following the BP Macondo well blowout earlier this year, the uncertainty of increased regulatory requirements continues to impact offshore operators, particularly deepwater drilling customers. We estimate that the combined impact of the deepwater drilling moratorium and related regulatory issues resulted in the reduction of our consolidated revenues by approximately \$18 to \$23 million during

the third quarter of 2010, compared to the level of revenues we would have expected had the recent events in the Gulf of Mexico not occurred. This decrease was experienced primarily by our Fluids Division, although our Offshore Services segment was also affected. Our Compressco operation continued to be affected by lower natural gas prices and disruptions in its Mexico operations, and its revenues and pretax earnings decreased compared to the prior year period. Maritech, despite increased revenues as a result of strong realized oil and gas pricing from its commodity derivative program, reported a significant decrease in earnings largely as a result of increased impairments. These impairments were primarily caused by the impact from increased estimated asset retirement obligations, lower than expected results from development activities, as well as from weaker expected future natural gas pricing. Despite the impact of decreased offshore activity, our Fluids Division reported increased revenues as a result of the increased sales of calcium chloride from its new El Dorado, Arkansas plant facility, which began operation in late 2009. The impact of the increased revenues from the El Dorado, Arkansas plant facility, however, was more than offset by increased product costs, partly due to continuing early production inefficiencies at the new plant. The completion of the

construction of the El Dorado plant also resulted in increased interest expense, as a significant portion of interest expense was capitalized in prior periods to the cost of the plant. Partially offsetting the above decreases in profitability, our Production Testing segment reported increased revenue and profitability during the quarter as a result of improving demand from its domestic onshore customers.

We continue to maintain a strong balance sheet, and recent modifications to our long-term debt borrowings are expected to improve our liquidity going forward. Operating cash flows during the first nine months of 2010 totaled \$119.4 million, which was down 13.1% compared to the prior year due to the decreased operating activity levels discussed above. Operating cash flows during the current year period include a \$39.8 million Maritech insurance settlement received during the first quarter of 2010. Much of our operating cash flows continue to be dedicated to the extinguishment of Maritech decommissioning obligations for its offshore oil and gas properties. Our capital expenditures during the first nine months of 2010 were approximately \$82.2 million. These capital requirements were funded from our operating cash flows. Approximately \$93.1 million of our Senior Notes are scheduled to mature in September 2011. In anticipation of retiring these maturing Senior Notes, we entered into a new Master Note Purchase Agreement, under which we expect to sell \$90 million in Series 2010 Senior Notes in December 2010. In addition, in October 2010, we amended our bank revolving credit facility, decreasing the facility to \$278 million and extending its scheduled maturity to October 2015. The amended credit facility agreement allows us to increase the facility by \$150 million upon the agreement of the lenders and the satisfaction of certain conditions. We continue to carry no outstanding balance on our bank credit facility as of November 9, 2010. With the recently increased borrowing capacity, we continue to review acquisition and growth opportunities for our businesses.

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, 2009. 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 current 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 environment are encountered. Actual results are likely to differ from our current estimates, and those differences may be material.

Because the estimated fair value of our Compressco reporting unit currently exceeds its carrying value by approximately 6.5%, there is a reasonable possibility that Compressco's goodwill may be impaired in a future period, and the amount of such impairment may be material. Specific uncertainties affecting the estimated fair value of our Compressco reporting unit include the prices received by Compressco's customers for natural gas production, the rate of future growth of Compressco's business, and the need and timing of the full resumption of the fabrication of Compressco's GasJack® compressor units. In addition, Compressco's Mexico operations may continue to be disrupted by security issues in that country. The demand for Compressco's wellhead compression services and products continues to be decreased compared to early 2008 levels and negatively affected by the current economic environment. Any further decrease of natural gas prices could have a further negative effect on the fair value of our Compressco reporting unit.

Results of Operations

Three months ended September 30, 2010 compared with three months ended September 30, 2009.

Consolidated Comparisons

| | Three Months Ended | | Period to Period Change | | |
|---|------------------------------------|-----------------------|-------------------------|----------|---|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | |
| | (In Thousands, Except Percentages) | | | | |
| Revenues | \$211,918 | \$253,975 | \$(42,057) | -16.6 | % |
| Gross profit | 28,779 | 62,773 | (33,994) | -54.2 | % |
| Gross profit as a percentage of revenue | 13.6 | % 24.7 | % | | |
| General and administrative expense | 24,606 | 24,230 | 376 | 1.6 | % |
| General and administrative expense as a percentage of revenue | 11.6 | % 9.5 | % | | |
| Interest expense, net | 4,484 | 2,969 | 1,515 | 51.0 | % |
| Other (income) expense, net | (107) | 1,687 | (1,794) | -106.3 | % |
| Income (loss) before taxes and discontinued operations | (204) | 33,887 | (34,091) | -100.6 | % |
| Income (loss) before taxes and discontinued operations as a percentage of revenue | -0.1 | % 13.3 | % | | |
| Provision (benefit) for income taxes | (391) | 11,075 | (11,466) | -103.5 | % |
| Income before discontinued operations | 187 | 22,812 | (22,625) | -99.2 | % |
| Loss from discontinued operations, net of taxes | (17) | (150) | 133 | 88.7 | % |
| Net income | \$170 | \$22,662 | \$(22,492) | -99.2 | % |

Consolidated revenues decreased primarily due to the \$42.7 million decrease in Offshore Services revenues compared to the record revenue levels experienced by this segment during the prior year period. Partially offsetting this decrease, we reported increased Fluids Division revenues resulting from increased sales volumes of clear brine fluids and other manufactured products. In addition, increased revenues from our Production Testing and Maritech segments also partially offset the Offshore Services revenue decrease. Overall gross profit also decreased significantly primarily due to the prior year period performance of our Offshore Services segment. However, decreased gross profit of our Maritech, Fluids, and Compressco segments also contributed to the decrease in our consolidated gross profit.

Consolidated general and administrative expenses increased as compared to the prior year period primarily due to increased employee related costs, including \$0.4 million of increased salary, benefits, contract labor costs, and other associated employee expenses. Increases in other general expenses of approximately \$0.7 million were offset by \$0.3 million of decreased office expenses and \$0.4 million of decreased insurance expenses.

Consolidated interest expense increased \$1.5 million during the third quarter of 2010 compared to the prior year period primarily due to a decrease in capitalized interest compared to the prior year period, following the completion of significant construction projects, including the El Dorado, Arkansas, calcium chloride facility and our corporate headquarters building.

We recorded consolidated other income for the third quarter of 2010 of \$0.1 million. Consolidated other (income) expense for the prior year period included a charge for a \$2.0 million legal settlement. Other income also increased

from the prior year period due to \$0.6 million of decreased hedge ineffectiveness losses, \$0.7 million of increased gains on sales of assets, and \$0.5 million of increased other income. These increases were partially offset by \$2.1 million of decreased foreign currency gains.

Consolidated income taxes decreased during the current year period as compared to the prior year period primarily due to decreased earnings.

Divisional Comparisons

Fluids Division

| | Three Months Ended | | Period to Period Change | | |
|--|------------------------------------|-----------------------|-------------------------|----------|---|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | |
| | (In Thousands, Except Percentages) | | | | |
| Revenues | \$57,862 | \$50,889 | \$6,973 | 13.7 | % |
| Gross profit | 7,932 | 10,236 | (2,304) | -22.5 | % |
| Gross profit as a percentage of revenue | 13.7 | % 20.1 | % | | |
| General and administrative expense | 5,890 | 5,106 | 784 | 15.4 | % |
| General and administrative expense as a percentage of revenue | 10.2 | % 10.0 | % | | |
| Interest (income) expense, net | 29 | 11 | 18 | | |
| Other (income) expense, net | 297 | (681) |) 978 | | |
| Income before taxes and discontinued operations | \$1,716 | \$5,800 | \$(4,084) | -70.4 | % |
| Income before taxes and discontinued operations as a percentage of revenue | 3.0 | % 11.4 | % | | |

The increase in Fluids Division revenues was partly due to \$4.0 million of increased service revenues as compared to the prior year period. This increase was the result of increased domestic onshore frac water and filtration service activity. In addition, product sales revenues increased by \$3.0 million, despite decreased pricing for selected products, primarily due to increased sales of liquid calcium chloride from our new El Dorado, Arkansas, calcium chloride plant. This plant began production during the fourth quarter of 2009. Product sales revenues also increased during the current year period due to increased international sales of clear brine fluids (CBFs) as a result of increased oil and gas activity in the international markets we serve. These increased international sales more than offset the decreases in domestic CBF and calcium chloride sales to offshore oil and gas customers during the current year period, which were caused in part by decreased activity in the Gulf of Mexico as a result of the deepwater drilling moratorium and related regulatory requirements. Although this moratorium was lifted in October 2010, delays due to permitting and increased regulatory requirements are expected to postpone the return of improved demand in the Gulf of Mexico.

Gross profit decreased compared to the prior year period despite the increase in revenues discussed above, as the impact of the increase in manufactured products revenues from the new calcium chloride plant was more than offset by higher product costs, early production inefficiencies from the plant, and the impact of decreased oil and gas industry demand. We continue to take steps to improve the operational efficiency of the new plant; however, there is still a considerable effort required, and significant improvement in plant performance is not expected during the next six months. Increased gross profit from the growth in international sales of CBF products was largely offset by the decrease in gross profit due to the decreased offshore domestic CBF activity.

Income before taxes decreased compared to the prior year period primarily due to the decrease in gross profit discussed above. Other income decreased compared to the prior year period mainly due to decreased foreign currency gains for the Division's international businesses. In addition, Fluids Division general and administrative expenses increased primarily due to increased office, professional services, and personnel related costs.

Offshore Division

Offshore Services Segment

| | Three Months Ended | | Period to Period Change | | |
|--|------------------------------------|-----------------------|-------------------------|----------|---|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | |
| | (In Thousands, Except Percentages) | | | | |
| Revenues | \$88,821 | \$131,482 | \$(42,661) | -32.4 | % |
| Gross profit | 22,351 | 45,800 | (23,449) | -51.2 | % |
| Gross profit as a percentage of revenue | 25.2 | % 34.8 | % | | |
| General and administrative expense | 4,067 | 3,367 | 700 | 20.8 | % |
| General and administrative expense as a percentage of revenue | 4.6 | % 2.6 | % | | |
| Interest (income) expense, net | 159 | - | 159 | | |
| Other (income) expense, net | (198) | 2,183 | (2,381) | | |
| Income before taxes and discontinued operations | \$18,323 | \$40,250 | \$(21,927) | -54.5 | % |
| Income before taxes and discontinued operations as a percentage of revenue | 20.6 | % 30.6 | % | | |

The significant decrease in Offshore Services segment revenues was due to decreased activity compared to the record levels experienced in the prior year period. The decreased activity has resulted in reduced utilization of much of the segment's fleet. A portion of the decreased activity was due to regulatory and permitting delays, which have resulted in customers postponing some work to future periods. In addition to the decreased activity for certain of the segment's operations, overall pricing levels have decreased during 2010 compared to the prior year period. We plan to continue to capitalize on the anticipated demand levels for well abandonment and decommissioning services in the Gulf of Mexico to be performed over the next several years on offshore properties that were damaged or destroyed by hurricanes. In addition, recently announced changes in regulatory requirements for operators of certain offshore platforms and equipment assets could also increase demand. However, we anticipate that levels of such activity will not be as high as the record activity levels enjoyed during most of 2009. Approximately \$28.0 million of the segment's revenues during the third quarter of 2010 was related to work performed for Maritech, compared with \$11.6 million during the prior year period. These intersegment revenues are eliminated in the consolidated statements of operations. We anticipate that future work on Maritech properties will continue to be significant going forward into 2011.

The significant decrease in gross profit was primarily due to the decreased activity and pricing, but also included the impact of decreased utilization and efficiencies compared to the prior year period. We anticipate that profitability of the Offshore Services segment will continue to be decreased going forward compared to the record high profitability levels of 2009 due to the expected decrease in utilization and pricing.

The decrease in income before taxes as compared to the prior year period was primarily due to the decreased gross profit discussed above. In addition, general and administrative expenses increased primarily from the impact of increased salaries and employee expenses compared to the prior year period. Partially offsetting these decreases, other expense during the prior year period included a charge for a \$2.0 million legal settlement.

Maritech Segment

| | Three Months Ended | | Period to Period Change | |
|---|------------------------------------|-----------------------|-------------------------|----------|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change |
| | (In Thousands, Except Percentages) | | | |
| Revenues | \$48,583 | \$43,319 | \$5,264 | 12.2 % |
| Gross profit (loss) | (13,070) | (5,813) | (7,257) | -124.8 % |
| Gross profit (loss) as a percentage of revenue | -26.90 % | -13.42 % | | |
| General and administrative expense | 1,587 | 1,344 | 243 | 18.1 % |
| General and administrative expense as a percentage of revenue | 3.3 % | 3.1 % | | |
| Interest (income) expense, net | (37) | - | (37) | |
| Other (income) expense, net | (360) | 1 | (361) | |
| Income (loss) before taxes and discontinued operations | \$(14,260) | \$(7,158) | \$(7,102) | -99.2 % |
| Income (loss) before taxes and discontinued operations as a percentage of revenue | -29.4 % | -16.5 % | | |

Maritech revenues increased during the third quarter of 2010 compared to the prior year period due to approximately \$8.9 million of increased realized commodity prices. Maritech has hedged a portion of its expected future production levels by entering into commodity derivative hedge contracts, with certain contracts extending through 2011, although contracts with the most significant impact compared to current market prices will expire at the end of the current year. Including the impact of its commodity derivative hedge contracts, Maritech reflected average realized oil and natural gas prices during the third quarter of 2010 of \$96.58/barrel and \$8.67/MMBtu, respectively, each of which were significantly higher than market prices of oil and natural gas during the period. Much of the favorable hedged oil pricing impact was as a result of 2010 oil swaps that were liquidated during 2009. Partially offsetting the increased realized prices, decreased production volumes during the current year period resulted in \$3.4 million of decreased revenues. The decreased production volumes were due to natural gas production interruptions, but were partially offset by increased oil production, which included a portion of the production from Maritech's East Cameron 328 field which resumed production earlier this year. The East Cameron 328 field will continue to have a portion of its production shut-in until Maritech completes the redrilling of certain wells on a newly installed platform to replace the platform that was toppled during Hurricane Ike in 2008. Recent successful development efforts at Maritech's Timbalier Bay field are expected to result in increased production going forward. However, since late 2008, Maritech has significantly reduced its overall acquisition and development activities, and the level of such activity is expected to continue to be decreased going forward due to our ongoing efforts to conserve capital. In addition, Maritech reported \$0.2 million of decreased processing revenue during the current year quarter.

Despite the increased revenues, gross profit further decreased during the third quarter of 2010 compared to the prior year period. This decrease was primarily due to approximately \$13.4 million of increased impairments of oil and gas properties during the current year period, which were largely due to the impact of increased estimated asset retirement obligations, lower than expected results from development efforts on certain properties during the current year, and weaker expected natural gas prices. In addition, Maritech recorded approximately \$2.4 million of increased charges for decommissioning costs incurred in excess of recorded liabilities. The amount of excess decommissioning costs charged to earnings during the current year period includes \$2.7 million related to work to be performed in future periods. Also, insurance expense during the current year period increased by \$1.0 million compared to the prior year period, as beginning in July 2010, Maritech purchased windstorm damage insurance for the ensuing twelve month period. Maritech had previously elected to self-insure for windstorm damage insurance for the prior twelve month

period. Partially offsetting the impact of increased impairments, excess decommissioning costs, and insurance expense, was a \$3.9 million reduction in repair and workover expenses primarily due to hurricane repair work performed in the prior year period.

The increase in loss before taxes was primarily due to the decrease in gross profit discussed above. General and administrative expenses increased slightly due to increased personnel related and bad debt expenses, but this increased expense was more than offset by increased other income from gains on property sales.

Production Enhancement Division

Production Testing Segment

| | Three Months Ended | | Period to Period Change | | |
|--|--------------------|-----------------------|-------------------------|----------|---|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | |
| (In Thousands, Except Percentages) | | | | | |
| Revenues | \$25,736 | \$19,070 | \$6,666 | 35.0 | % |
| Gross profit | 5,924 | 4,309 | 1,615 | 37.5 | % |
| Gross profit as a percentage of revenue | 23.0 | % 22.6 | % | | |
| General and administrative expense | 2,435 | 2,190 | 245 | 11.2 | % |
| General and administrative expense as a percentage of revenue | 9.5 | % 11.5 | % | | |
| Interest (income) expense, net | (15) |) 1 | (16 |) | |
| Other (income) expense, net | (729 |) (732 |) 3 | | |
| Income before taxes and discontinued operations | \$4,233 | \$2,850 | \$1,383 | 48.5 | % |
| Income before taxes and discontinued operations as a percentage of revenue | 16.4 | % 14.9 | % | | |

The increase in revenues for the Production Testing segment was due to a \$7.3 million increase in domestic revenues resulting from increased onshore oil and gas industry activity, as reflected by increased domestic rig count levels. Partially offsetting this increase, international revenues decreased by \$0.6 million compared to the prior year period as a result of decreased activity for the regions in which we serve. Much of our international production testing services are provided in Mexico, where customer budgetary issues, regional flooding, and security disruptions have negatively impacted activity levels during the current year period.

The increase in gross profit was primarily due to the increased domestic activity as a result of improved demand as well as from improved operating efficiencies. These increases were partially offset by decreased profitability from international activities, which was due to decreased activity in Mexico and the impact of the segment's South American technical management contractual activity.

Income before taxes increased primarily due to the increased gross profit discussed above. This increase was partially offset by increased general and administrative costs, primarily due to increased salary and personnel related costs.

Compressco Segment

| | Three Months Ended | | Period to Period Change | | | |
|---|--------------------|-----------------------|-------------------------|----------|-------|---|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | | |
| (In Thousands, Except Percentages) | | | | | | |
| Revenues | \$19,686 | \$20,960 | \$(1,274 |) | -6.1 | % |
| Gross profit | 6,612 | 7,919 | (1,307 |) | -16.5 | % |
| Gross profit as a percentage of revenue | 33.6 | % 37.8 | % | | | |
| General and administrative expense | 2,768 | 2,664 | 104 | 3.9 | % | |
| General and administrative expense as a percentage of revenue | 14.1 | % 12.7 | % | | | |

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| | | | | | |
|--|---------|---------|----------|----|---------|
| Interest (income) expense, net | 3 | - | 3 | | |
| Other (income) expense, net | 7 | (22 |) | 29 | |
| Income before taxes and discontinued operations | \$3,834 | \$5,277 | \$(1,443 |) | -27.3 % |
| Income before taxes and discontinued operations as a percentage of revenue | 19.5 | % | 25.2 | % | |

The decrease in revenues for the Compressco segment was primarily due to the reduced U.S. demand for wellhead compression services during the third quarter of 2010 compared to the prior year period. This decrease resulted in a \$0.6 million decrease in service revenue. Although Compressco's domestic activity levels have begun to increase during the past two quarters, current period revenue levels are still decreased from the prior year period. Over the past year, many oil and gas operators, including many of Compressco's customers, reacted to lower gas prices with efforts to reduce operating

expenses. The overall decrease in revenues occurred despite a \$0.5 million increase in revenues from sales of compressor units during the third quarter of 2010 compared to the prior year period. International service revenues decreased \$1.2 million compared to the prior year period, due to decreased activity levels in Mexico, and despite continuing efforts to expand Compressco's penetration into new international markets. Going forward, Compressco's international revenues are expected to continue to be negatively affected by conditions in Mexico, where customer budgetary issues, regional flooding, and security disruptions reduced activity levels during the current year period. Compressco has reduced the fabrication of new compressor units until demand for its services increases and inventories of available units are reduced.

Compressco's gross profit decreased domestically primarily due to the decreased domestic activity discussed above, but was also affected by decreased pricing and increases in selected operating expenses. International profitability also decreased primarily due to the decreased Mexico activity. Gross profit as a percentage of revenues also decreased due to the decreased activity, despite Compressco's efforts to improve operating efficiencies.

The decrease in income before taxes was primarily due to the decrease in gross profit and decreased foreign currency gains. In addition, general and administrative expenses increased due primarily to increased salary and personnel related costs.

Corporate Overhead

| | Three Months Ended | | Period to Period Change | | |
|--|------------------------------------|-----------------------|-------------------------|----------|---|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | |
| | (In Thousands, Except Percentages) | | | | |
| Gross profit (primarily depreciation expense) | \$ (918 |) \$ (798 |) \$ (120 |) 15.0 | % |
| General and administrative expense | 7,860 | 9,559 | (1,699 |) -17.8 | % |
| Interest (income) expense, net | 4,346 | 2,960 | 1,386 | 46.8 | % |
| Other (income) expense, net | 875 | 935 | (60 |) -6.4 | % |
| Income (loss) before taxes and discontinued operations | \$ (13,999 |) \$ (14,252 |) \$ 253 | 1.8 | % |

Corporate Overhead includes corporate general and administrative expense, interest income and expense, and other income and expense. Such expenses and income are not allocated to our operating divisions, as they relate to our general corporate activities. Corporate Overhead decreased primarily due to decreased administrative expense compared to the prior year period. Corporate general and administrative costs decreased due to approximately \$1.5 million of decreased salaries and other general employee expenses, primarily due to decreased incentive compensation. In addition, office expenses decreased approximately \$0.4 million and insurance expense decreased by approximately \$0.1 million. These decreases were partially offset by approximately \$0.2 million of increased general expense and approximately \$0.1 million of increased professional fee expenses. Largely offsetting the decrease in administrative expense, corporate interest expense increased due to a decrease in the amount of interest capitalized on construction projects during the period, particularly following the completion of the El Dorado, Arkansas, calcium chloride facility. Also, other expense decreased slightly during the current year period, as increased foreign currency losses were more than offset by decreased hedge ineffectiveness losses.

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Nine months ended September 30, 2010 compared with nine months ended September 30, 2009.

Consolidated Comparisons

| | Nine Months Ended | | Period to Period Change | | | |
|--|------------------------------------|-----------------------|-------------------------|----------|---------|---|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | | |
| | (In Thousands, Except Percentages) | | | | | |
| Revenues | \$659,429 | \$667,170 | \$(7,741) |) | -1.2 | % |
| Gross profit | 111,705 | 146,532 | (34,827) |) | -23.8 | % |
| Gross profit as a percentage of revenue | 16.9 | % 22.0 | % | | | |
| General and administrative expense | 72,338 | 71,253 | 1,085 | | 1.5 | % |
| General and administrative expense as a percentage of revenue | 11.0 | % 10.7 | % | | | |
| Interest expense, net | 12,750 | 9,557 | 3,193 | | 33.4 | % |
| Other (income) expense, net | (2,189) |) 61 | (2,250) |) | -3688.5 | % |
| Income before taxes and discontinued operations | 28,806 | 65,661 | (36,855) |) | -56.1 | % |
| Income before taxes and discontinued operations as a percentage of revenue | 4.4 | % 9.8 | % | | | |
| Provision for income taxes | 9,528 | 22,269 | (12,741) |) | -57.2 | % |
| Income before discontinued operations | 19,278 | 43,392 | (24,114) |) | -55.6 | % |
| Loss from discontinued operations, net of taxes | (121) |) (393) |) 272 | | | |
| Net income | \$19,157 | \$42,999 | \$(23,842) |) | -55.4 | % |

Consolidated revenues decreased despite increased revenues from our Fluids, Maritech, and Production Testing segments primarily due to decreases in the Offshore Services and Compressco segments. Offshore Services revenues decreased by \$46.2 million compared to the record levels of 2009. Increased onshore oil and gas industry activity contributed to the revenue increases by our Production Testing and Fluids Divisions, with the Fluids Division also reflecting increased production of manufactured products from our new El Dorado, Arkansas calcium chloride plant. Maritech revenues increased largely because of higher realized oil prices, which include the impact of our commodity derivative hedges. Overall gross profit decreased primarily due to \$32.8 million of decreased profitability from our Offshore Services segment, which reported record profitability during the prior year period, although Fluids and Compressco profitability were also down. These decreases were partially offset by increased Production Testing gross profit and decreased Maritech losses.

Consolidated general and administrative expenses increased as compared to the prior year period primarily due to \$3.3 million of increased employee related costs, including increased salary, benefits, contract labor costs, and other associated employee expenses. In addition, general and administrative expenses increased due to \$0.9 million of increased professional fees, \$0.8 million of increased general expenses, and \$0.1 million of increased office expenses. These increases were partially offset by approximately \$3.0 million of decreased bad debt expense and \$1.0 million of decreased insurance expenses.

Consolidated interest expense increased primarily due to a decrease in capitalized interest compared to the prior year period following the completion of significant construction projects, including the El Dorado, Arkansas, calcium chloride facility and our corporate headquarters building.

Consolidated other income increased during 2010 compared to the prior year due to approximately \$2.5 million of decreased hedge ineffectiveness losses. Decreased foreign currency gains during the current period were largely offset by increased earnings in an unconsolidated subsidiary. Consolidated other (income) expense for the prior year included approximately \$2.5 million of gains on sales of assets and \$3.8 million of net legal settlements, which were offset by a \$6.8 million charge for an impairment of a European joint venture investment.

Consolidated provision for income taxes decreased primarily due to the decreased earnings.

Divisional Comparisons

Fluids Division

| | Nine Months Ended | | Period to Period Change | | |
|--|-------------------|-----------------------|-------------------------|----------|---|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | |
| (In Thousands, Except Percentages) | | | | | |
| Revenues | \$203,452 | \$176,789 | \$26,663 | 15.1 | % |
| Gross profit | 34,272 | 40,439 | (6,167) | -15.3 | % |
| Gross profit as a percentage of revenue | 16.8 | % 22.9 | % | | |
| General and administrative expense | 16,647 | 16,412 | 235 | 1.4 | % |
| General and administrative expense as a percentage of revenue | 8.2 | % 9.3 | % | | |
| Interest (income) expense, net | 42 | 33 | 9 | | |
| Other (income) expense, net | (510) |) 4,825 | (5,335) | | |
| Income before taxes and discontinued operations | \$18,093 | \$19,169 | \$(1,076) | -5.6 | % |
| Income before taxes and discontinued operations as a percentage of revenue | 8.9 | % 10.8 | % | | |

The increase in Fluids Division revenues as compared to the prior year period was primarily due to \$23.1 million of increased product sales revenues. This increase in product sales was mainly due to increased revenues from sales of liquid calcium chloride produced from our new El Dorado, Arkansas, calcium chloride plant, which began production during the fourth quarter of 2009. Product sales revenues also increased due to a significant sale of bromide products during the first quarter of 2010. Also, clear brine fluids (CBFs) sales volumes increased compared to the prior year period primarily due to increased international oil and gas activity in the foreign markets we serve. Revenues from domestic sales of CBF products also increased slightly. This increase was despite the decreased activity and pricing on product sales to domestic deepwater operators during the third quarter of 2010 as a result of the deepwater drilling moratorium. Although this moratorium was lifted in October 2010, delays due to permitting and increased regulatory requirements may postpone the return of improved demand in the Gulf of Mexico. In addition to increased product sales revenues, service revenues increased by approximately \$3.5 million due to increased domestic frac water and filtration service activities.

Despite the increased revenues, gross profit decreased compared to the prior year period primarily due to the decreased profitability of our domestic calcium chloride manufacturing operations. This decreased profitability was a result of start-up costs and early production inefficiencies from the new calcium chloride plant. We continue to take steps to improve the operational efficiency of the new plant; however, there is still a considerable effort required, and significant improvement in plant performance is not expected during the next six months. In addition, gross profit on CBF product sales decreased, despite the increased international activity, due to the lower prices for selected products and due to increased product costs.

Income before taxes decreased compared to the prior year period primarily due to the decreased gross profit discussed above, and due to increased general and administrative expenses. These decreases were partially offset by a significant decrease in other expense as compared to the prior year period when we recorded a \$6.8 million charge for the impairment of the Division's investment in a European unconsolidated joint venture. The joint venture ceased its calcium chloride manufacturing plant operation during 2009 following our joint venture partner's announced closure of its adjacent plant facility that supplied the joint venture's plant with feedstock raw material. Other income for the

current year period was reduced primarily due to decreased foreign currency gains on the Division's international operations.

Offshore Division

Offshore Services Segment

| | Nine Months Ended | | Period to Period Change | | |
|--|------------------------------------|-----------------------|-------------------------|----------|---|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | |
| | (In Thousands, Except Percentages) | | | | |
| Revenues | \$225,620 | \$271,783 | \$(46,163) | -17.0 | % |
| Gross profit | 42,593 | 75,374 | (32,781) | -43.5 | % |
| Gross profit as a percentage of revenue | 18.9 | % 27.7 | % | | |
| General and administrative expense | 12,423 | 10,392 | 2,031 | 19.5 | % |
| General and administrative expense as a percentage of revenue | 5.5 | % 3.8 | % | | |
| Interest (income) expense, net | 160 | (161) | 321 | | |
| Other (income) expense, net | (141) | 2,513 | (2,654) | | |
| Income before taxes and discontinued operations | \$30,151 | \$62,630 | \$(32,479) | -51.9 | % |
| Income before taxes and discontinued operations as a percentage of revenue | 13.4 | % 23.0 | % | | |

The decrease in revenues for the Offshore Services segment was due to decreased activity compared to the record levels experienced in the prior year period. The decreased activity resulted in reduced utilization of much of the segment's fleet as compared to the prior year period, without taking into effect the addition of a leased dive service vessel beginning in June 2009. In addition to the decreased activity for certain of the segment's operations, overall pricing levels were lower during the current year period compared to the prior year period. We plan to continue to capitalize on the anticipated high demand levels for well abandonment and decommissioning services in the Gulf of Mexico over the next several years on offshore properties that were damaged or destroyed by hurricanes. In addition, recently announced changes in regulatory requirements for operators of certain offshore platforms and equipment assets could also increase demand. Still, we anticipate that levels of activity will be reduced compared to the record activity levels we experienced during most of 2009. A significant amount of hurricane damage work was performed for Maritech during 2010, and \$51.3 million of the segment's revenues during the first nine months of 2010 were performed for Maritech, compared with \$40.6 million during the prior year period. These intersegment revenues are eliminated in the consolidated statements of operations.

The decrease in gross profit was primarily due to the decreased activity and pricing, but also included the impact of decreased utilization and efficiencies compared to the prior year period. We anticipate that profitability of the Offshore Services segment will continue to be decreased going forward compared to the record high profitability levels of 2009, due to the expected decrease in utilization rates and pricing.

The decrease in income before taxes was primarily due to the decreased gross profit discussed above. Increased general and administrative expenses include the impact of increased salaries and personnel related costs compared to the prior year period. Partially offsetting these decreases, other expense during the prior year period included a charge for a \$2.0 million legal settlement.

Maritech Segment

| | Nine Months Ended | | Period to Period Change | |
|---|------------------------------------|-----------------------|-------------------------|----------|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change |
| | (In Thousands, Except Percentages) | | | |
| Revenues | \$ 145,552 | \$ 129,939 | \$ 15,613 | 12.0 % |
| Gross profit (loss) | (2,273) | (8,662) | 6,389 | 73.8 % |
| Gross profit (loss) as a percentage of revenue | -1.6 % | -6.7 % | | |
| General and administrative expense | 2,745 | 3,312 | (567) | -17.1 % |
| General and administrative expense as a percentage of revenue | 1.9 % | 2.5 % | | |
| Interest (income) expense, net | (89) | 8 | (97) | |
| Other (income) expense, net | (356) | (2,579) | 2,223 | |
| Income (loss) before taxes and discontinued operations | \$(4,573) | \$(9,403) | \$ 4,830 | 51.4 % |
| Income (loss) before taxes and discontinued operations as a percentage of revenue | -3.1 % | -7.2 % | | |

Approximately \$34.5 million of increased Maritech revenues was due to increased realized commodity prices during the first nine months of 2010 compared to the prior year period. Maritech has hedged a portion of its expected future production levels by entering into commodity derivative hedge contracts, with certain contracts extending through 2011, although contracts with the most significant impact compared to current market prices will expire at the end of the current year. Including the impact of its commodity derivative hedge contracts, Maritech reflected average realized oil and natural gas prices during the first nine months of 2010 of \$96.60/barrel and \$8.48/MMBtu, respectively, each of which were significantly higher than market prices of oil and natural gas during the period. Much of the favorable hedged oil pricing impact was as a result of 2010 oil swaps that were liquidated during 2009. Partially offsetting the increased realized prices, production volumes decreased during the current year period, resulting in \$18.2 million of decreased revenues, primarily from natural gas production interruptions and normal oil and gas production declines during the period. Although overall oil production increased compared to the prior year period, Maritech's interest in the East Cameron 328 field will continue to have a portion of its production shut-in until Maritech completes the redrilling of certain wells from a newly installed platform to replace the platform that was toppled during Hurricane Ike in 2008. Recent successful development efforts at Maritech's Timbalier Bay field are expected to result in increased production going forward. However, since late 2008, as a result of our efforts to conserve capital, Maritech has significantly reduced its overall acquisition and development activities, and the level of such activity is expected to continue to be decreased going forward. In addition, Maritech reported \$0.7 million of decreased processing revenue during the current year period.

The impact of Maritech's increased revenues was offset by \$20.2 million of increased oil and gas property impairments during the current year period, primarily due to the impact of increased estimated asset retirement obligations, lower than expected results from development activities on certain properties, and weaker expected natural gas prices. In addition, Maritech reflected approximately \$3.2 million of decreased insurance settlement gains compared to the prior year period. These decreases were partially offset by approximately \$5.3 million of decreased repair and workover expense, primarily due to hurricane repair costs incurred during the prior year period. Maritech also reported \$6.1 million of decreased depreciation, depletion, amortization, and accretion during the current year period, primarily due to decreased production. In addition, Maritech reflected \$1.5 million of decreased charges for decommissioning costs incurred in excess of recorded liabilities associated with well abandonment and decommissioning activities. While Maritech's insurance expense decreased approximately \$3.6 million during the current year period due to Maritech's

decision to suspend its windstorm damage coverage during much of the past twelve month period, beginning in July 2010, Maritech resumed its purchase of windstorm damage insurance for the subsequent twelve month period, which will increase operating expenses going forward.

The decrease in Maritech's pretax loss was due to the increase in gross profit discussed above and decreased general and administrative expenses, which was primarily due to decreased bad debt expense. These increases were partially offset by \$2.2 million of decreased gains on sales of assets.

Production Enhancement Division

Production Testing Segment

| | Nine Months Ended | | Period to Period Change | | |
|--|-------------------|-----------------------|-------------------------|----------|---------|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | |
| (In Thousands, Except Percentages) | | | | | |
| Revenues | \$77,147 | \$61,976 | \$15,171 | 24.5 | % |
| Gross profit | 17,254 | 15,452 | 1,802 | 11.7 | % |
| Gross profit as a percentage of revenue | 22.4 | % 24.9 | % | | |
| General and administrative expense | 6,714 | 6,177 | 537 | 8.7 | % |
| General and administrative expense as a percentage of revenue | 8.7 | % 10.0 | % | | |
| Interest (income) expense, net | (23 |) 3 | (26 |) | |
| Other (income) expense, net | (1,188 |) (6,659 |) 5,471 | | |
| Income before taxes and discontinued operations | \$11,751 | \$15,931 | \$(4,180 |) | -26.2 % |
| Income before taxes and discontinued operations as a percentage of revenue | 15.2 | % 25.7 | % | | |

The increase in revenues for the Production Testing segment was primarily due to an \$8.3 million increase in international revenues resulting from increased activity of international operations other than Mexico, including revenues associated with a South American technical management contract. In addition, revenues increased by \$6.9 million due to increased domestic operations, primarily due to the increase in domestic drilling activity. Much of our international production testing services are based in Mexico, where customer budgetary issues, security disruptions, and regional flooding during the third quarter have negatively affected activity levels during the current year period.

The increase in gross profit was due to approximately \$2.9 million of increased domestic gross profit, which more than offset the approximately \$1.1 million decrease in international gross profit. Domestic profitability increased due to the higher activity levels and improved operating efficiencies. While international production testing operations have historically generated higher operating margins than domestic operations, decreased activity in Mexico and operating interruptions have hampered international profitability.

Income before taxes decreased primarily due to the \$5.8 million gain from a legal settlement which was recorded in the prior year period. This decrease in other income plus increased administrative costs was partially offset by the increased gross profit during the current year period.

Compressco Segment

| | Nine Months Ended | | Period to Period Change | | |
|---|-------------------|-----------------------|-------------------------|----------|---------|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | |
| (In Thousands, Except Percentages) | | | | | |
| Revenues | \$59,999 | \$67,528 | \$(7,529 |) | -11.1 % |
| Gross profit | 21,766 | 25,631 | (3,865 |) | -15.1 % |
| Gross profit as a percentage of revenue | 36.3 | % 38.0 | % | | |
| General and administrative expense | 8,180 | 7,833 | 347 | 4.4 | % |

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|--|----------|---|----------|---|----------|-----------|
| General and administrative expense as a percentage of revenue | 13.6 | % | 11.6 | % | | |
| Interest (income) expense, net | 36 | | - | | 36 | |
| Other (income) expense, net | 85 | | (52 |) | 137 | |
| Income before taxes and discontinued operations | \$13,465 | | \$17,850 | | \$(4,385 |) -24.6 % |
| Income before taxes and discontinued operations as a percentage of revenue | 22.4 | % | 26.4 | % | | |

The decrease in Compressco revenues was due to \$5.7 million of decreased U.S. compression service revenues, primarily reflecting the reduced U.S. demand for wellhead compression services during the first nine months of 2010. We believe the reduced demand was primarily due to continuing lower natural gas prices compared to prices during previous years. Although Compressco's domestic activity levels have begun to increase during the past two quarters, current period revenue levels are still lower

than the prior year period. Over the past year, many domestic oil and gas operators, including certain Compressco customers, have responded to the lower gas prices by reducing operating expenses. In addition, international service revenues also decreased by \$2.3 million, primarily due to decreased activity in Mexico. Going forward, we anticipate that Compressco's international revenues will continue to be negatively affected by conditions in Mexico, where customer budgetary issues, security disruptions, and regional flooding during the third quarter have negatively impacted activity levels during the current year period. Revenues from sales of compressor units increased \$0.4 million compared to the prior year period. Compressco has reduced the fabrication of new compressor units until demand for its services increases and inventories of available units are reduced.

The decrease in gross profit was due to decreased demand domestically for Compressco's products and services, as well as due to the above described decreased activity in Mexico. Domestic profitability was also affected by decreased pricing compared to the prior year. Gross profit as a percentage of revenues also decreased due to the decreased activity, despite Compressco's efforts to improve operating efficiencies.

The decrease in income before taxes was primarily due to the decrease in gross profit and, to a lesser extent, from increased administrative expenses, which were primarily due to increased salary and personnel related expenses.

Corporate Overhead

| | Nine Months Ended | | Period to Period Change | | |
|--|------------------------------------|-----------------------|-------------------------|----------|---|
| | 2010 | September 30, 2009 | 2010 vs 2009 | % Change | |
| | (In Thousands, Except Percentages) | | | | |
| Gross profit (primarily depreciation expense) | \$ (2,427 |) \$ (2,248 |) \$ (179 |) -8.0 | % |
| General and administrative expense | 25,629 | 27,127 | (1,498 |) -5.5 | % |
| Interest (income) expense, net | 12,625 | 9,675 | 2,950 | 30.5 | % |
| Other (income) expense, net | (80 |) 2,088 | (2,168 |) -103.8 | % |
| Income (loss) before taxes and discontinued operations | \$ (40,601 |) \$ (41,138 |) \$ 537 | 1.3 | % |

Corporate Overhead includes corporate general and administrative expense, interest income and expense, and other income and expense. Such expenses and income are not allocated to our operating divisions, as they relate to our general corporate activities. Corporate Overhead decreased slightly during the first nine months of 2010 compared to the prior year period, as decreased other expense and general and administrative expense were largely offset by increased interest expense. Other expense decreased primarily due to approximately \$2.5 million of decreased hedge ineffectiveness losses from our commodity derivatives. Corporate general and administrative costs also decreased primarily due to approximately \$1.1 million of decreased salaries and employee related expenses, which was mainly due to decreased incentive compensation. In addition, general and administrative expenses decreased due to \$0.5 million of decreased office expenses and approximately \$0.2 million of decreased general expenses and \$0.5 million of decreased insurance and taxes expenses. These decreases were partially offset by approximately \$0.7 million of increased professional fee expenses. Partially offsetting these decreases, corporate interest expense increased due to a decrease in the amount of interest capitalized on construction projects during the period, particularly following the completion of the construction of the El Dorado, Arkansas, calcium chloride facility.

Liquidity and Capital Resources

Our balance sheet remains strong, and our liquidity position has been enhanced as a result of our recent execution of a long-term borrowing arrangement. In addition, we amended our bank credit facility to extend its scheduled maturity to

October 2015, which will provide a source of capital for the next five years. These efforts position us to continue to seek acquisition and growth opportunities that meet certain criteria. We continue to fund our existing capital expenditure plans, however, with our operating cash flows. Our operating cash flows during the first nine months of 2010 have decreased compared to the prior year period. Operating cash flows have been negatively affected by the current uncertain regulatory environment following the recent events in the Gulf of Mexico, as well as by low natural gas prices and

the continuing economic recovery. We are continuing with the fiscal discipline we established in late 2008, which includes reviewing our capital expenditure plans carefully.

Operating Activities – Cash flows from operating activities totaled approximately \$119.4 million during the first nine months of 2010 compared to approximately \$137.3 million during the prior year period. Prior period operating cash flows include \$23.1 million from the liquidation of certain oil swap derivative contracts. Approximately \$39.8 million of current period operating cash flows were generated from insurance settlements and claims proceeds from a portion of Maritech's insurance coverage related to damages suffered from Hurricane Ike during 2008. Excluding these insurance recoveries, current year operating cash flows have decreased significantly compared to the prior year, and primarily reflect the decreased operating cash flows of our Offshore Services segment, which enjoyed unprecedented demand for its products and services during 2009.

Future operating cash flows for many of our businesses are largely dependent upon the level of oil and gas industry activity, particularly in the U.S. Gulf of Mexico region. As a result of the BP Macondo oil spill, regulatory requirements for offshore operators, particularly deepwater operators, are increasing. We estimate that the combined impact of the recent U.S. government imposed deepwater drilling moratorium and related regulatory issues resulted in the reduction of our consolidated revenues by approximately \$18 to \$23 million during the third quarter of 2010, compared to the level of revenues we would have expected had the recent events in the Gulf of Mexico not occurred. This decrease was experienced primarily by our Fluids Division, although our Offshore Services segment was also affected. Although the deepwater drilling moratorium was lifted in October 2010, the impact of regulatory uncertainty is expected to continue to negatively affect the cost and timing of offshore activities in the future, perhaps significantly. Many within the oil and gas industry are expecting further increases in regulatory requirements for all U.S. offshore drilling and production operations, particularly for deepwater projects. Operators are currently experiencing delays in permitting for deepwater as well as shallow water offshore projects. A portion of our revenues will continue to be impacted by the current regulatory environment. Following the Macondo spill and the announcement of the drilling moratorium, the U.S. Gulf of Mexico offshore rig count dropped significantly, and it is uncertain to what extent offshore activities will return to previous levels. For certain of our businesses, increased government regulations could affect us positively. However, to the extent more stringent government regulations affecting deepwater and shallow water drilling are enacted, our future revenues and operating cash flows could be negatively affected overall.

In addition, the timing and strength of the current global economic recovery continues to be difficult to predict, and the majority of domestic oil and gas operators' activities and spending levels are significantly below early 2008 levels. Demand for a large portion of our products and services is driven by oil and gas drilling and production activity, which is affected by oil and natural gas commodity pricing. Decreased Maritech cash flows as a result of currently decreasing natural gas prices are largely offset by the impact of natural gas commodity derivative contracts, which extend through the end of 2010. However, current natural gas prices also affect the domestic demand for the products and services of our Production Testing, Compressco, and Fluids segments. While the levels of revenues and cash flows for some of these businesses are improving modestly in 2010 compared to 2009, such levels are expected to continue to be significantly below the levels generated during the first half of 2008.

During the past two years, Maritech has performed an extensive amount of well intervention, abandonment, decommissioning, debris removal, and platform construction associated with the six offshore platforms that were destroyed by Hurricanes Rita and Ike during 2005 and 2008, respectively. As of September 30, 2010, Maritech has two remaining downed platforms to be removed, and has begun redrilling certain wells at its East Cameron 328 field using a newly installed replacement platform. The estimated cost to perform the remaining abandonment, decommissioning, debris removal, platform construction, and well redrilling will be approximately \$60 to \$75 million net to our interest before any insurance recoveries. Actual costs could greatly exceed these estimates, and depending on the nature of any excess costs incurred, could result in significant charges to earnings in future periods.

Approximately \$42 million of this amount has been accrued as part of Maritech's decommissioning liability, and an additional approximate \$18 to \$33 million relates primarily to the estimated cost to finalize the newly installed offshore platform and complete the redrilling of the wells at the East Cameron 328 location. Following the collection of the \$39.8 million insurance settlement proceeds associated with Hurricane Ike during the first quarter of 2010, Maritech has additional maximum remaining insurance coverage available of approximately \$29.5 million, all of which relates to Hurricane Ike.

Future operating cash flows will also be significantly affected by the timing and amount of expenditures required for the plugging, abandonment, and decommissioning of Maritech's oil and gas properties, including the cost associated with the two remaining offshore platforms that were destroyed by hurricanes, along with hurricane related debris removal costs. Approximately \$75.0 million of our operating cash flows were used to fund this activity during the first nine months of 2010. The discounted fair value, including an estimated profit, of Maritech's total decommissioning liability as of September 30, 2010 was \$196.3 million (\$208.8 million undiscounted). This amount is based upon what Maritech estimates it would have to pay a third party to extinguish these liabilities. The cash outflow necessary to extinguish this liability is expected to occur over several years, shortly after the end of each property's productive life. The amount and timing of these cash outflows are estimated based on expected costs, as well as the timing of future oil and gas production and the resulting depletion of Maritech's oil and gas reserves. Such estimates are imprecise and subject to change due to changing cost estimates, Bureau of Ocean Energy Management, Regulation, and Enforcement (BOEMRE, formerly the Minerals Management Service) and other regulatory requirements, commodity prices, revisions of reserve estimates, future hurricanes, and other factors. The estimates associated with the remaining work on platforms destroyed by hurricanes are particularly imprecise due to the unique nature of the work to be performed.

Maritech's estimated decommissioning liabilities are net of amounts allocable to joint interest owners and any contractual amounts to be paid by the previous owners of the properties. In some cases, the previous owners of properties that were acquired by Maritech are contractually obligated to pay Maritech a fixed amount for the future well abandonment and decommissioning work on these properties as the work is performed, which partially offsets Maritech's future expenditures. As of September 30, 2010, Maritech's total undiscounted decommissioning obligation is approximately \$244.8 million and consists of Maritech's total liability of \$208.8 million plus approximately \$36.0 million of such contractual reimbursement arrangements with the previous owners.

The recent explosion and subsequent oil spill at the BP Macondo well evidences the general operating risks associated with offshore oil and gas activities. While we have no liability associated with this specific incident, we are subject to operating hazards normally associated with the oilfield service industry and offshore oil and gas production operations, including fires, explosions, blowouts, cratering, mechanical problems, abnormally pressured formations, and environmental accidents. We maintain various types of business insurance that would 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, general liability, vessel pollution liability, and operational risk coverage for our Maritech oil and gas properties, including named windstorm damage, removal of debris, operator's extra expense, control of well, and pollution and clean-up coverage. Our insurance coverage includes deductibles that must be met 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 written master service agreements that create insurance and indemnity obligations for both parties. Our Maritech subsidiary maintains a formalized oil spill response plan that it submits to BOEMRE. Maritech has designated employees and third party contracts in place to insure 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 2010, we currently plan to expend less than \$145 million of capital expenditures and other investing activities, and approximately \$82.2 million of this amount was expended during the first nine months of 2010. We expect to have the ability to fund our planned 2010 capital expenditure activity through cash flows from operations. This planned level of capital expenditures is significantly reduced compared to the past several years, partially due to the completion during 2009 of our new corporate headquarters in The Woodlands, Texas and our El Dorado, Arkansas calcium chloride plant facility. In light of uncertainties regarding our future operating cash flows,

our capital expenditure plans have been, and will continue to be, reviewed carefully, and a significant amount of such capital expenditures have been deferred until activity levels increase. This restraint on capital expenditure activity may also affect future growth. In particular, prior to 2009, we had invested significantly in Maritech acquisition and development activities, and the current reduction in spending may result in negative

growth for Maritech over time as a result of postponing the replacement of depleting oil and gas reserves and production cash flows. We are selectively pursuing the acquisition of oil and gas properties, and in July 2010, we purchased additional onshore oil and gas properties for \$6.7 million. Despite the current economic environment, our long-term growth strategy continues to include the pursuit of suitable acquisitions or opportunities to establish operations in additional niche oil and gas service markets. To the extent we consummate a significant transaction, our liquidity position will be affected.

Cash capital expenditures of approximately \$82.3 million during the first nine months of 2010 included approximately \$8.8 million by the Fluids Division, approximately \$5.8 million of which related to the ongoing modification of our new calcium chloride plant facility. Our Offshore Division incurred approximately \$63.4 million of capital expenditures during the period, approximately \$53.8 million of which was expended by the Division's Maritech segment primarily related to acquisition, exploration and development expenditures on its oil and gas properties. In addition, the Offshore Division expended approximately \$9.6 million on its Offshore Services operations, primarily for costs on its various heavy lift and dive support vessels. The Production Enhancement Division spent approximately \$9.5 million, consisting of approximately \$4.4 million by the Production Testing segment to replace or enhance a portion of its production testing equipment fleet and approximately \$5.1 million by the Compressco segment for general infrastructure needs along with minimal expansion of its wellhead compressor fleet. Corporate capital expenditures were approximately \$0.6 million.

Financing Activities

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

Bank Credit Facilities – On October 29, 2010, we amended our existing bank revolving credit facility agreement with a syndication of banks whereby the credit facility was decreased from \$300 million to \$278 million and its scheduled maturity was extended from June 2011 to October 2015. 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. As of November 9, 2010, we did not have any outstanding balance on the amended revolving credit facility and had \$14.5 million in letters of credit and guarantees against the \$278.0 million amended revolving credit facility, leaving a net availability of \$263.5 million.

Under the amended credit facility agreement (the Credit Agreement), the revolving credit facility, which is scheduled to mature in October 2015, remains unsecured and guaranteed by certain of our material U.S. subsidiaries. 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. Similar to the previous terms, the Credit Agreement contains customary covenants and other restrictions, including certain financial ratio covenants involving 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 ability to comply with the certain financial ratio covenants set forth in the Credit Agreement, as discussed above. Significant deterioration of the financial ratios could result in a default under the Credit Agreement and, if not remedied, could result in termination of the agreement and acceleration of any outstanding balances.

The Credit Agreement also 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 September 30, 2010. Our continuing ability to comply with these financial covenants centers largely upon our ability to generate adequate cash flow. Historically, our financial performance has been more than adequate to meet these covenants, and subject to the duration of the current economic environment, we expect this trend to continue.

Senior Notes – In September 2004, we issued, and sold through a private placement, \$55 million in aggregate principal amount of Series 2004-A Senior Notes and 28 million euros (approximately \$38.1 million equivalent at September 30, 2010) in aggregate principal amount of Series 2004-B Senior Notes pursuant to a Master Note Purchase Agreement. The Series 2004-A Senior Notes bear interest at a fixed rate of 5.07% and are scheduled to mature on September 30, 2011. The Series 2004-B Notes bear interest at a fixed rate of 4.79% and are also scheduled to mature on September 30, 2011. Interest on the 2004-A and 2004-B Senior Notes is due semiannually on March 30 and September 30 of each year.

In April 2006, we issued, and sold through a private placement, \$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. The Series 2006-A Senior Notes bear interest at the 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, and sold through a private placement, \$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 bear interest at the fixed rate of 6.30% and mature on April 30, 2013. The Series 2008-B Senior Notes bear interest at the fixed rate of 6.56% and mature on April 30, 2015. Interest on the 2008 Senior Notes is due semiannually on April 30 and October 31 of each year.

In September 2010, we entered into an agreement whereby we expect to issue and sell through a private placement, \$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. Closing of the issuance and sale of the 2010 Senior Notes and funding of the proceeds from the 2010 Senior Notes is scheduled to occur on December 15, 2010, and is expected to be used to repay the 2004 Senior Notes at or prior to their maturity in September 2011. The Series 2010-A Senior Notes are to bear interest at the fixed rate of 5.09% and mature on December 15, 2017. The Series 2010-B Senior Notes are to bear interest at the fixed rate of 5.67% and mature on December 15, 2020. Interest on the 2010 Senior Notes is due semiannually on June 15 and December 15 of each year.

The Series 2004-A Senior Notes, Series 2004-B Senior Notes, Series 2006-A Senior Notes, 2008 Senior Notes and the Series 2010 Senior Notes, when issued, are collectively referred to as the Senior Notes. 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 guaranteed by substantially all of our wholly owned U.S. subsidiaries. The agreements governing all of our Senior Notes, including the Series 2010 Senior Notes (the Senior Note Purchase Agreements), 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 flows over a twelve month period. The Senior Note Purchase Agreements also contain customary default provisions as well as cross-default provisions relating to any other of our indebtedness of \$20 million or more. We are in compliance with all covenants and conditions of the Senior Note Purchase Agreements as of September 30, 2010. Upon the occurrence and during the continuation of an event of default under the Senior Note Purchase Agreements, 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 – In addition to our revolving credit facility, we fund our short-term liquidity requirements from cash generated by operations, from short-term vendor financing, and, to a lesser extent, from leasing with institutional leasing companies. 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 September 2011 and December 2020. The replacement of these capital sources at similar or more favorable terms is not certain. If it is necessary to utilize equity to fund our capital needs, dilution to our common stockholders could occur.

In November 2009, we filed a universal shelf registration statement on Form S-3 that permits us to issue an indeterminate amount of securities including common stock, preferred stock, senior and subordinated debt securities, warrants, and units. Such securities may be used for working capital needs, capital expenditures, and expenditures related to general corporate purposes, including possible future acquisitions. In May 2004, we filed a universal acquisition shelf registration statement on Form S-4 that permits us to issue up to \$400 million of common stock, preferred stock, senior and subordinated debt securities, and warrants in one or more acquisition transactions that we may undertake from time to time.

As of September 30, 2010, the market value of our oil and natural gas swap contracts was approximately \$12.7 million. All or a portion of these contracts are currently marketable to the corresponding counterparty and could be liquidated in order to generate additional cash. However, there can be no assurances that such counterparties, the majority of which are banks and financial institutions, would agree to repurchase these swap derivative contracts, particularly if the market values increase significantly or if the counterparty's financial condition deteriorated. The liquidation of any of these swap contracts, if not replaced with similar derivative contracts, would expose an additional portion of Maritech's expected future oil and gas production to market price volatility in future periods.

Off Balance Sheet Arrangements – As of September 30, 2010, 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 reasonably expect these matters to have a material adverse impact on the financial statements.

Class Action Lawsuit – Between March 27, 2008, and April 30, 2008, two putative class action complaints were filed in the United States District Court for the Southern District of Texas (Houston Division) against us and certain former officers by certain stockholders on behalf of themselves and other stockholders who purchased our common stock between January 3, 2007, and October 16, 2007. The complaints assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The complaints allege that the defendants violated the federal securities laws during the period by, among other things, disseminating false and misleading statements and/or concealing material facts concerning our current and prospective business and financial results. The complaints also allege that, as a result of these actions, our stock price was artificially inflated during the class period, which enabled our insiders to sell their personally-held shares for a substantial gain. The complaints seek unspecified compensatory damages, costs, and expenses. On May 8, 2008, the Court consolidated these complaints as *In re TETRA Technologies, Inc. Securities Litigation*, No. 4:08-cv-0965 (S.D. Tex.). On August 27, 2008, Lead Plaintiff Fulton County Employees' Retirement System filed its Amended Consolidated Complaint. On October 28, 2008, we filed a motion to dismiss the federal class action. On July 9, 2009, the Court issued an opinion dismissing, without prejudice, most of the claims in this lawsuit but permitting plaintiffs to proceed on their allegations regarding disclosures pertaining to the collectability of certain insurance receivables. On June 16, 2010, defendants and plaintiff's counsel reached a settlement agreement whereby all claims against defendants will be released in exchange for a payment of \$8.25 million, which is expected to be paid by our insurers. On September 29, 2010, the Court approved the settlement and entered the Order and Final Judgment terminating the class action lawsuit.

Derivative Lawsuit – Between May 28, 2008 and June 27, 2008, two petitions were filed by alleged stockholders in the District Courts of Harris County, Texas, 133rd and 113th Judicial Districts, purportedly on our behalf. The suits name

our directors and certain officers as defendants. The factual allegations in these lawsuits mirror those in the class action lawsuit, and the claims are for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. The petitions seek disgorgement, costs, expenses, and unspecified equitable relief. On September 22, 2008, the 133rd District Court consolidated these complaints as In re TETRA Technologies, Inc. Derivative Litigation, Cause No. 2008-23432 (133rd Dist. Ct., Harris County, Tex.), and

appointed Thomas Prow and Mark Patricola as Co-Lead Plaintiffs. This lawsuit was stayed by agreement of the parties pending the Court's ruling on our motion to dismiss the federal class action. On September 8, 2009, the plaintiffs in this state court action filed a consolidated petition which makes factual allegations similar to the surviving allegations in the federal lawsuit. On April 19, 2010, the Court granted our motion to abate the suit, based on plaintiff's inability to demonstrate derivative standing. On June 8, 2010, we received a letter from plaintiff's counsel demanding that our board of directors take action against the defendants named in the previously filed derivative lawsuit. Our board is currently evaluating the best course of action to take in response to the demand letter.

At this stage, it is impossible to predict the outcome of the derivative lawsuit or its impact upon us. We continue to believe that the allegations made in the derivative lawsuit are without merit, and we intend to continue to seek dismissal of and vigorously defend against this lawsuit. While a successful outcome cannot be guaranteed, we do not reasonably expect this lawsuit to have a material adverse effect.

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.

In August of 2009, the Environmental Protection Agency (EPA), pursuant to Sections 308 and 311 of the Clean Water Act (CWA), served a request for information with regard to a release of zinc bromide that occurred from one of our transport barges on the Mississippi River on March 11, 2009. We timely filed a response to that request for information in August 2009. In January 2010, the EPA issued a Notice of Violation and Opportunity to Show Cause related to the spill. We met with the EPA in April 2010 to discuss potential violations and penalties. It has been agreed that no injunctive relief will be required. We have finalized a joint stipulation of settlement with the EPA whereby we are responsible for a penalty of \$487,000, which will be payable later during 2010. We expect this penalty to be covered by insurance.

Cautionary Statement for Purposes of Forward-Looking Statements

Certain statements contained herein and elsewhere may be deemed to be forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to the "safe harbor" provisions of that act, including, without limitation, statements concerning future or expected sales, earnings, costs, expenses, acquisitions or corporate combinations, asset recoveries, expected costs associated with damage from hurricanes and the ability to recover such costs under our insurance policies, the ability to resume operations and production from our damaged or destroyed platforms, the ability to obtain alternate sources of raw materials for certain of our calcium chloride facilities, working capital, capital expenditures, financial condition, other results of operations, the expected impact of current economic and capital market conditions on the oil and gas industry and our operations, the potential impact of the current regulatory environment in the Gulf of Mexico including future governmental drilling regulations, other statements regarding our beliefs, plans, goals, future events and performance, and other statements that are not purely historical. Such statements involve risks and uncertainties, many of which are beyond our control. Actual results could differ materially from the expectations expressed in such forward-looking statements. Some of the risk factors that could affect our actual results and cause actual results to differ materially from any such results that might be projected, forecast, estimated, or budgeted by us in such forward-looking statements are described in our Annual Report on Form 10-K for the year ended December 31, 2009, this Quarterly Report on Form 10-Q, and set forth from time to time in

our filings with the Securities and Exchange Commission.

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, 2009.

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 September 30, 2010, 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 September 30, 2010, 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 reasonably expect these matters to have a material adverse impact on the financial statements.

The information regarding litigation matters described in the Notes to Consolidated Financial Statements, Note G – Commitments and Contingencies, Litigation, and included elsewhere in this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors.

Information regarding risk factors appears in Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2009. The risk factors below update, and should be read in conjunction with, the risk factors as disclosed in our Form 10-K for the year ended December 31, 2009:

Our operations in the Gulf of Mexico could be adversely impacted by the recent drilling rig accident and resulting oil spill.

On April 20, 2010, a blowout on a deepwater Gulf of Mexico drilling rig, the Deepwater Horizon, resulted in the rig catching fire and sinking. The Macondo well blowout and the resulting government-imposed drilling moratorium in the deepwater Gulf of Mexico and related regulatory requirements have significantly reduced the U.S. Gulf of Mexico completion fluids market and slowed the permitting of new drilling activity and plug and abandonment work in the U.S. Gulf of Mexico. The U.S. Minerals Management Service (MMS) has been reorganized as the Bureau of Ocean Energy, Management, Regulation, and Enforcement (BOEMRE) and its attention appears to be focused on spill cleanup and enforcement matters. BOEMRE recently issued to U.S. Gulf of Mexico operators notices implementing additional safety and certification requirements applicable to drilling activities in the Gulf of Mexico that have resulted in operations and projects being curtailed or suspended. Although the moratorium was lifted in October 2010, the uncertainties of increased regulatory requirements on offshore operators remain. We continue to monitor the current offshore regulatory environment closely and take such actions as we consider appropriate to minimize the impact of additional regulatory requirements on our operations. As a result of the current environment, however, the timing of offshore projects for certain of our customers in the U.S. Gulf of Mexico has been delayed, and the level of operating revenues from these customers for the last half of 2010 has been reduced.

We have significant operations that are either ongoing or scheduled to commence in the U.S. Gulf of Mexico. At this time, we cannot predict the full impact of the incident, the resulting spill, the recently lifted drilling moratorium, or other regulatory actions on the schedule of our operations or those of our customers. In addition, we cannot predict how government or regulatory agencies will further respond to the incident or whether changes in laws and regulations concerning operations in the U.S. Gulf of Mexico will be enacted. Certain new regulatory requirements have recently been announced, and additional significant changes in regulations regarding future exploration, development, or production

activities in the U.S. Gulf of Mexico or other governmental or regulatory actions could reduce our revenues and increase our operating costs, including the cost to insure offshore operations, resulting in reduced cash flows and profitability.

Escalating security disruptions in Mexico have interrupted our operations in that country, and such interruptions could increase in the future.

During the past year, incidents of security disruptions throughout many regions of Mexico have increased. Drug related gang activity has grown in response to Mexico's efforts to reduce and control drug trafficking within the country. Certain incidents of violence have occurred in regions served by our Production Testing and Compressco segments and have resulted in the interruption of our operations and these interruptions could continue or increase in the future. To the extent that such security disruptions continue or increase, our operations will continue to be affected, and the levels of revenue and operating cash flow from our Mexican operations could be reduced.

Potential regulations regarding derivatives could adversely affect our ability to engage in commodity price risk management activities.

We use derivative instruments to manage the commodity price risk for our Maritech segment. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law in July 2010, contains measures aimed at increasing the transparency and stability of the over-the-counter derivative markets and preventing excessive speculation. The Dodd-Frank Act could restrict trading positions in the energy futures markets and may require us to comply with cash margin requirements. These changes could materially reduce our hedging opportunities and increase the costs associated with our hedging programs, both of which would negatively affect our revenues and cash flows.

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) |
|------------------------|----------------------------------|------------------------------|---|--|
| July 1 - July 31, 2010 | 24 | (2) \$ 9.88 | - | \$ 14,327,000 |
| Aug 1 - Aug 31, 2010 | 1,123 | (2) 9.83 | - | 14,327,000 |
| Sept 1 - Sept 30, 2010 | 161 | (2) 9.34 | - | 14,327,000 |
| Total | 1,308 | | - | \$ 14,327,000 |

(1) In January 2004, our Board of Directors authorized the repurchase of up to \$20 million of our common stock. 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 employee restricted stock. These shares were not acquired pursuant to the stock repurchase program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved.)

Item 5. Other Information.

(a) In connection with the Company's preparation of the financial statements for the quarterly period ended September 30, 2010, management determined that a charge of approximately \$14.0 million, primarily for the partial impairment of oil and gas properties operated by its Maritech Resources, Inc. (Maritech) subsidiary, was required. The impairment charge primarily resulted from the impact of increased estimated asset retirement obligations, lower than expected results from development efforts during the year on certain properties, weaker expected future natural gas prices, and the decreased fair value of probable and possible reserves for certain of Maritech's oil and gas properties. It is not anticipated that these impairments will result in future cash expenditures. The disclosure set forth in this Item 5 is included in this Quarterly Report on Form 10-Q in accordance with the instructions to Item 2.06 of Form 8-K.

Item 6. Exhibits.

Exhibits:

- 4.1 Note Purchase Agreement, dated September 30, 2010, by and among TETRA Technologies, Inc. and The Lincoln National Life Insurance Company, Teachers Insurance and Annuity Association of America, Wells Fargo Bank, N.A., The Guardian National Life Insurance Company of America, The Guardian Insurance & Annuity Company, Inc., Southern Farm Bureau Life Insurance Company, Primerica Life Insurance Company, Prime Reinsurance Company, Inc., Senior Health Insurance Company of Pennsylvania, The Union Central Life Insurance Company, Ameritas Life Insurance Corp., Acacia Life Insurance Company and First Ameritas Life Insurance Corp. of New York (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 8, 2010 (SEC File No. 001-13455)).
- 4.2 Form of 5.09% Senior Notes, Series 2010-A, due December 15, 2017 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 8, 2010 (SEC File No. 001-13455)).
- 4.3 Form of 5.67% Senior Notes, Series 2010-B, due December 15, 2020 (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on October 8, 2010 (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.

* 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 nine months ended September 30, 2010 and 2009; (ii) Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009; (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009; and (iv) Notes to Consolidated Financial Statements for the nine months ended September 30, 2010. Users

of this data are advised pursuant to Rule 406T of Regulation S-T that the interactive data files in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except as shall be expressly set forth by specific reference in such filing.

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.

Date: November 9, 2010

TETRA Technologies, Inc.
By: /s/ Stuart M. Brightman
Stuart M. Brightman
President
Chief Executive Officer

Date: November 9, 2010

By: /s/ Joseph M. Abell
Joseph M. Abell
Senior Vice President
Chief Financial Officer

Date: November 9, 2010

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

EXHIBIT INDEX

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