TETRA TECHNOLOGIES INC
Form 10-Q
August 09, 2012

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

[ ] 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 [X] No [ ]

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

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

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

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

As of August 7, 2012, there were 78,035,270 shares outstanding of the Company's Common Stock, $0.01 par value per share.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues:				
Product sales	$ 75,782	$ 105,290	$ 143,011	$ 211,813
Services and rentals	159,127	129,824	272,694	245,846
Total revenues	234,909	235,114	415,705	457,659
Cost of revenues:				
Cost of product sales	62,516	82,686	113,006	159,704
Cost of services and rentals	100,064	79,678	180,642	161,449
Depreciation, depletion, amortization, and accretion	19,221	36,937	36,554	74,329
Total cost of revenues	181,801	199,301	330,202	395,482
Gross profit	53,108	35,813	85,503	62,177
General and administrative expense	31,466	29,006	62,357	56,768
Interest expense, net	4,084	4,085	8,235	8,276
(Gain) loss on sale of assets	703	(59,577)	(3,264)	(60,309)
Other (income) expense, net	(1,585)	14,745	(2,017)	13,929
Income before taxes and discontinued operations	18,440	47,554	20,192	43,513
Provision for income taxes	6,262	17,031	6,866	15,502
Income before discontinued operations	12,178	30,523	13,326	28,011
Income (loss) from discontinued operations, net of taxes	3	(54)	2	(57)
Net income	12,181	30,469	13,328	27,954
Net (income) loss attributable to noncontrolling interest	(607)	(95)	(1,073)	(95)
Net income attributable to TETRA stockholders	$ 11,574	$ 30,374	$ 12,255	$ 27,859
Basic net income per common share:				
Income before discontinued operations attributable to TETRA stockholders	$ 0.15	$ 0.40	$ 0.16	$ 0.36
Loss from discontinued operations attributable to TETRA stockholders	0.00	(0.00)	0.00	(0.00)

Net income attributable to TETRA stockholders	$ 0.15	$ 0.40	$ 0.16	$ 0.36
Average shares outstanding	77,278	76,579	77,174	76,415
Diluted net income per common share:				
Income before discontinued operations attributable to TETRA stockholders	$ 0.15	$ 0.39	$ 0.16	$ 0.36
Loss from discontinued operations attributable to TETRA stockholders	0.00	(0.00)	0.00	(0.00)
Net income attributable to TETRA stockholders	$ 0.15	$ 0.39	$ 0.16	$ 0.36
Average diluted shares outstanding	78,998	78,315	78,640	77,985

See Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$12,181	$30,469	$13,328	$27,954
Foreign currency translation adjustment, net of taxes of $1,185 and $851, respectively, in 2012 and $(582) and $(770), respectively, in 2011	(6,942)	2,229	(3,020)	5,713
Net change in derivative fair value, net of taxes of $4,165 and $1,578, respectively, in 2011	-	7,030	-	2,663
Comprehensive income	5,239	39,728	10,308	36,330
Less: comprehensive income attributable to noncontrolling interest	(607)	(95)	(1,073)	(95)
Comprehensive income attributable to TETRA stockholders	$4,632	$39,633	$9,235	$36,235

See Notes to Consolidated Financial Statements

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

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,212	$ 204,412
Restricted cash	5,562	8,780
Trade accounts receivable, net of allowances for doubtful accounts of $1,776 in 2012 and $1,849 in 2011	183,841	141,537
Inventories	98,236	99,985
Deferred tax asset	28,968	39,330
Oil and gas properties held for sale	34	3,743
Prepaid expenses and other current assets	24,832	30,714
Total current assets	390,685	528,501
Property, plant, and equipment		
Land and building	79,253	76,937
Machinery and equipment	573,486	530,408
Automobiles and trucks	52,021	46,950
Chemical plants	158,234	158,065
Construction in progress	43,956	25,316
Total property, plant, and equipment	906,950	837,676
Less accumulated depreciation	(327,729)	(308,375)
Net property, plant, and equipment	579,221	529,301
Other assets:		
Goodwill	150,966	99,132
Patents, trademarks and other intangible assets, net of accumulated amortization of $24,568 in 2012 and $22,572 in 2011	37,205	11,872
Deferred tax assets	74	258
Other assets	40,619	34,246
Total other assets	228,864	145,508
Total assets	$ 1,198,770	$ 1,203,310

See Notes to Consolidated Financial Statements

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

	June 30, 2012 (Unaudited)	December 31, 2011
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	$ 56,748	$ 46,382
Accrued liabilities	83,091	80,940
Current portion of long-term debt	35,035	35
Decommissioning and other asset retirement obligations, net	75,537	105,008
Total current liabilities	250,411	232,365
Long-term debt, net	270,000	305,000
Deferred income taxes	42,516	48,537
Decommissioning and other asset retirement obligations, net	37,601	34,827
Other liabilities	16,119	13,493
Total long-term liabilities	366,236	401,857
Commitments and contingencies		
Equity:		
TETRA Stockholders' equity:		
Common stock, par value $0.01 per share; 100,000,000 shares authorized; 80,324,075, shares issued at June 30, 2012, and 79,673,374 shares issued at December 31, 2011	803	797
Additional paid-in capital	224,664	220,144
Treasury stock, at cost; 2,290,282 shares held at June 30, 2012, and 2,249,959 shares held at December 31, 2011	(14,954)	(14,841)
Accumulated other comprehensive income (loss)	(5,897)	(2,877)
Retained earnings	336,178	323,923
Total TETRA stockholders' equity	540,794	527,146
Noncontrolling interests	41,329	41,942
Total equity	582,123	569,088
Total liabilities and equity	$ 1,198,770	$ 1,203,310

See Notes to Consolidated Financial Statements

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

	Six Months Ended June 30, 2012	2011
Operating activities:		
Net income	$ 13,328	$ 27,954
Reconciliation of net income to cash provided by (used in) operating activities:		
Depreciation, depletion, amortization, and accretion	36,554	61,795
Impairments of long-lived assets	-	12,534
Provision (benefit) for deferred income taxes	(547)	9,754
Equity-based compensation expense	4,253	3,140
Provision for doubtful accounts	(304)	974
Gain on sale of property, plant, and equipment	(3,263)	(60,309)
Other non-cash charges and credits	6,904	19,997
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	(38,703)	597
Inventories	320	11,812
Prepaid expenses and other current assets	5,402	28,952
Trade accounts payable and accrued expenses	8,989	(17,608)
Decommissioning liabilities	(42,582)	(43,572)
Other	1,623	3,894
Net cash provided by (used in) operating activities	(8,026)	59,914
Investing activities:		
Purchases of property, plant, and equipment	(55,884)	(36,284)
Acquisition of businesses, net	(107,469)	(1,500)
Proceeds on sale of property, plant, and equipment	12,440	187,384
Other investing activities	3,538	(4,929)
Net cash provided by (used in) investing activities	(147,375)	144,671
Financing activities:		
Proceeds from long-term debt	1,947	-
Payments of long-term debt	(1,947)	-
Compressco Partners' distributions	(2,300)	-
Proceeds from exercise of stock options	612	2,245
Proceeds from issuance of Compressco Partners' common units, net of underwriters' discount	-	50,234
Compressco Partners' offering costs	-	(2,038)
	197	1,394

Excess tax benefit from exercise of stock options						
Net cash provided by (used in) financing activities		(1,491	)		51,835	
Effect of exchange rate changes on cash		1,692			1,994	
Increase (decrease) in cash and cash equivalents		(155,200	)		258,414	
Cash and cash equivalents at beginning of period		204,412			65,360	
Cash and cash equivalents at end of period	$	49,212		$	323,774	
Supplemental cash flow information:						
Interest paid	$	9,073		$	9,073	
Income taxes paid (refunded)		4,190			(16,138	)
Supplemental disclosure of non-cash investing and financing activities:						
Adjustment of fair value of decommissioning liabilities capitalized to oil and gas properties	$	-		$	1,810	

See Notes to Consolidated Financial Statements

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

NOTE A – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

We are a geographically diversified oil and gas services company, focused on completion fluids and associated products and services, after-frac flow back, production well testing and associated services, wellhead compression, and selected offshore services including well plugging and abandonment, decommissioning, and diving. We also have a limited domestic exploration and production business. We were incorporated in Delaware in 1981 and are composed of five reporting segments organized into three divisions – Fluids, Production Enhancement, and Offshore. Unless the context requires otherwise, when we refer to “we,” “us,” and “our,” we are describing TETRA Technologies, Inc. and its consolidated subsidiaries on a consolidated basis.

The consolidated financial statements include the accounts of our wholly owned subsidiaries. Investments in unconsolidated joint ventures in which we participate are accounted for using the equity method. Our interests in oil and gas properties are proportionately consolidated. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission (SEC) and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished reflects all normal recurring adjustments, which are, in the opinion of management, necessary to provide a fair statement of the results for the interim periods. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2011.

Certain previously reported financial information has been reclassified to conform to the current year period’s presentation. The impact of such reclassifications was not significant to the prior year period’s overall presentation.

Cash Equivalents

We consider all highly liquid cash investments, with a maturity of three months or less when purchased, to be cash equivalents.

Restricted Cash

Restricted cash is classified as a current asset when it is expected to be repaid or settled in the next twelve month period. Restricted cash reported on our balance sheet as of June 30, 2012, consists primarily of escrowed cash associated with our July 2011 purchase of a heavy lift derrick barge. The escrowed cash will be released to the sellers in accordance with the terms of the escrow agreement.

Inventories

Inventories are stated at the lower of cost or market value and consist primarily of finished goods. Cost is determined using the weighted average method. Significant components of inventories as of June 30, 2012, and December 31, 2011, are as follows:

	June 30, 2012	December 31, 2011

	(In Thousands)	
Finished goods	$ 69,592	$ 71,247
Raw materials	4,247	5,653
Parts and supplies	23,320	22,216
Work in progress	1,077	869
Total inventories	$ 98,236	$ 99,985

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

Net Income per Share

The following is a reconciliation of the weighted average number of common shares outstanding with the number of shares used in the computations of net income per common and common equivalent share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In Thousands)			
Number of weighted average common shares outstanding	77,278	76,579	77,174	76,415
Assumed exercise of stock awards	1,720	1,736	1,466	1,570
Average diluted shares outstanding	78,998	78,315	78,640	77,985

In applying the treasury stock method to determine the dilutive effect of the stock options outstanding during the first six months of 2012, we used the average market price of our common stock of $8.57. For the three months ended June 30, 2012 and 2011, the average diluted shares outstanding excludes the impact of 3,219,457 and 1,733,435 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 six months ended June 30, 2012 and 2011, the average diluted shares outstanding excludes the impact of 2,794,545 and 1,783,096 outstanding stock options, respectively, that have exercise prices in excess of the average market price, as the inclusion of these shares would have been antidilutive.

Environmental Liabilities

Environmental expenditures that result in additions to property and equipment are capitalized, while other environmental expenditures are expensed. Environmental remediation liabilities are recorded on an undiscounted basis when environmental assessments or cleanups are probable and the costs can be reasonably estimated. Estimates of future environmental remediation expenditures often consist of a range of possible expenditure amounts, a portion of which may be in excess of amounts of liabilities recorded. In such an instance, we disclose the full range of amounts reasonably possible of being incurred. Any changes or developments in environmental remediation efforts are accounted for and disclosed each quarter as they occur. Any recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Complexities involving environmental remediation efforts can cause estimates of the associated liability to be imprecise. Factors that cause uncertainties regarding the estimation of future expenditures include, but are not limited to, the effectiveness of the anticipated work plans in achieving targeted results and changes in the desired remediation methods and outcomes as prescribed by regulatory agencies. Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of reasonably possible outcomes. Estimates developed in the early stages of remediation can vary significantly. Normally, a finite estimate of cost does not become fixed and determinable at a specific point in time. Rather, the costs associated with environmental remediation become estimable as the work is performed and the range of ultimate cost becomes more defined. It is possible that cash flows and results of operations could be materially affected by the impact of the ultimate resolution of these contingencies.

Fair Value Measurements

Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” within an entity’s principal market, if any. The principal market is the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity, regardless of whether it is the market in which the entity will ultimately transact for a particular asset or liability or if a different market is potentially more advantageous. Accordingly, this exit price concept may result in a fair value that may differ from the transaction price or market price of the asset or liability.

Under generally accepted accounting principles, the fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value. Fair value measurements should maximize the use of observable inputs and minimize the use of unobservable inputs, where possible. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs may be needed to measure fair value in situations where there is little or no market activity for the asset or liability at the measurement date and are developed based on the best information available in the circumstances, which could include the reporting entity's own judgments about the assumptions market participants would utilize in pricing the asset or liability.

We utilize fair value measurements to account for certain items and account balances within our consolidated financial statements. Fair value measurements are utilized in the allocation of purchase consideration for acquisition transactions to the assets and liabilities acquired, including intangible assets and goodwill. In addition, we utilize fair value measurements in the initial recording of our decommissioning and other asset retirement obligations. Fair value measurements may also be utilized on a nonrecurring basis, such as for the impairment of long-lived assets, including goodwill. The fair value of our financial instruments, which may include cash, temporary investments, accounts receivable, short-term borrowings, and long-term debt pursuant to our bank credit agreement, approximate their carrying amounts. The fair values of our long-term Senior Notes at June 30, 2012 and December 31, 2011, were approximately \$329.9 million and \$332.4 million, respectively, compared to a carrying amount of \$305.0 million, as current rates on those dates were more favorable than the stated interest rates on the Senior Notes. We calculate the fair value of our Senior Notes internally, using current market conditions and average cost of debt (a level 2 fair value measurement).

New Accounting Pronouncements

In June 2011, the FASB published ASU 2011-05, "Comprehensive Income (Topic 220), Presentation of Comprehensive Income" (ASU 2011-05), with the stated objective of improving the comparability, consistency, and transparency of financial reporting and increasing the prominence of items reported in other comprehensive income. As part of ASU 2011-05, the FASB eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The ASU amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The ASU amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and the amendments are applied retrospectively. In December 2011, with the issuance of ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," the FASB announced that it has deferred certain aspects of ASU 2011-05. The portion of this ASU that has been adopted has not had a significant impact on the accounting or disclosures in our financial statements.

In May 2011, the FASB published ASU 2011-04, "Fair Value Measurement (Topic 820) – Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," whereby the FASB and the International Accounting Standards Board (IASB) aligned their definitions of fair value such that their fair value measurement and disclosure requirements are the same (except for minor differences in wording and style). The Boards concluded that the amendments in this ASU will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments in this ASU are effective during interim and annual periods beginning after December 15, 2011, and are applied prospectively. The adoption of the accounting and disclosure requirements of this ASU has not had a significant impact on our financial statements.

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NOTE B – ACQUISITIONS AND DISPOSITIONS

Acquisition of Optima

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

We allocated the purchase price to the fair value of the assets and liabilities acquired, which consisted of approximately: $3.0 million of net working capital; $16.8 million of property, plant, and equipment; $20.4 million of certain intangible assets; $6.1 million of deferred tax liabilities and $3.5 million of other liabilities associated with the contingent purchase price consideration obligation; and $34.5 million of nondeductible goodwill. This allocation of the purchase price to Optima's net assets and liabilities is preliminary and subject to the potential identification of additional assets and contingencies or revisions to the fair value calculations. These fair value calculations and allocations are expected to be finalized later during 2012 and could result in adjustments to the calculated depreciation and amortization of the tangible and intangible assets, respectively that were acquired. The fair value of the obligation to pay the contingent purchase price consideration was calculated based on the anticipated earnings for Optima over each of the next two twelve month periods subsequent to the closing and could increase (up to 4 million pounds sterling) or decrease (to zero) depending on Optima's actual and expected earnings going forward. Increases or decreases in the value of the anticipated contingent purchase price consideration obligation due to changes in the amounts paid or expected to be paid will be charged or credited to earnings in the period in which such changes occur. The $34.5 million of goodwill preliminarily recorded to our Production Testing segment as a result of the Optima acquisition is supported by the expected strategic benefits discussed above to be generated from the acquisition. For the six month period ended June 30, 2012, our revenues, depreciation and amortization, and pretax earnings included $8.6 million, $1.7 million, and $2.2 million, respectively, associated with the acquired operations of Optima after the closing in March 2012. In addition to the above impact on our results of operations, transaction costs associated with the acquisition of Optima of approximately $1.3 million were also charged to general and administrative expense during the period.

Acquisition of ERS

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

We allocated the purchase price to the fair value of the assets acquired, which consisted of approximately $18.0 million of property, plant, and equipment, approximately $6.8 million of certain intangible assets, and approximately $17.7 million of nondeductible goodwill. This allocation of the purchase price to the ERS assets is preliminary and subject to the potential identification of additional assets and contingencies or revisions to the fair value calculations. These fair value calculations and allocations are expected to be finalized later during 2012 and could result in adjustments to the calculated depreciation and amortization of the tangible and intangible assets, respectively. The

$17.7 million of goodwill preliminarily recorded to our Production Testing segment as a result of the ERS acquisition is supported by the expected strategic benefits discussed above to be generated from the acquisition. For the six month period ended June 30, 2012, our revenues, depreciation and amortization, and pretax earnings included $7.0 million, $0.7 million, and $2.5 million, respectively, associated with the acquired operations of ERS after the closing in April 2012. In addition to the above impact on our results of operations, transaction costs associated with the ERS acquisition of approximately $0.3 million were also charged to general and administrative expense during the period.

Acquisition of Greywolf

In July 2012, we acquired the assets and operations of Greywolf Production Systems Inc. and GPS Ltd. (together, Greywolf) for a cash purchase price of approximately $55.5 million. Greywolf is a provider of well testing and after-frac flow back services to oil and gas operators in western Canada and the U.S. Williston Basin (including the Bakken formation) and the Niobrara Shale formation of the U.S. Rocky Mountain region. This acquisition represents an additional strategic expansion of our existing Production Testing segment operations. As of August 9, 2012, a preliminary allocation of the Greywolf purchase price had yet to be calculated, but will be determined during the third quarter of 2012. Accordingly, disclosure of the allocation of the purchase price to the applicable Greywolf balance sheet line items, and the pro forma presentation reflecting the impact of the Greywolf acquisition will be presented in subsequent filings.

Pro Forma Financial Information

The pro forma information presented below has been prepared to give effect to the acquisitions of Optima and ERS as if they had occurred at the beginning of the periods presented. This pro forma information does not include the impact of the July 2012 acquisition of Greywolf, as the initial allocation of the purchase price for this acquisition has yet to be calculated. The aggregate pro forma impact of the sale of equipment and oil and gas producing properties described below is not material and is not included in the following pro forma information. The pro forma information is presented for illustrative purposes only and is based on estimates and assumptions we deemed appropriate. The following pro forma information is not necessarily indicative of the historical results that would have been achieved if the acquisition transactions had occurred in the past, and our operating results may have been different from those reflected in the pro forma information below. Therefore, the pro forma information should not be relied upon as an indication of the operating results that we would have achieved if the transactions had occurred at the beginning of the periods presented or the future results that we will achieve after the acquisitions.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In Thousands, Except Per Share Amounts)			
Revenues	$237,299	$246,553	$425,471	$477,927
Income before discontinued operations	$12,965	$32,257	$16,232	$30,037
Net income	$12,968	$32,203	$16,234	$29,980
Net income attributable to TETRA stockholders	$12,361	$32,108	$15,161	$29,885
Per share information:				
Income before discontinued operations attributable to TETRA stockholders				
Basic	$0.16	$0.42	$0.20	$0.39
Diluted	$0.16	$0.41	$0.19	$0.38
Net income attributable to TETRA stockholders				
Basic	$0.16	$0.42	$0.20	$0.39
Diluted	$0.16	$0.41	$0.19	$0.38

Sale of Equipment

In January 2012, our Offshore Services segment sold certain equipment for cash of approximately $7.8 million. As a result of the sale, we recognized a gain on disposal of approximately $4.1 million, which is included in gain on sale of assets.

Sale of Maritech Producing Properties

In March 2012, Maritech sold its interest in certain onshore oil and gas producing properties for cash of approximately $4.4 million received at closing. Following this transaction, Maritech's remaining oil and gas reserves and production are negligible, and its operations consist primarily of the remaining well abandonment and decommissioning of its offshore oil and gas platforms and facilities.

NOTE C – LONG-TERM DEBT AND OTHER BORROWINGS

Long-term debt consists of the following:

	Scheduled Maturity	June 30, 2012	December 31, 2011
		(In Thousands)	
Bank revolving line of credit facility	June 26, 2015	$ -	$ -
Compressco Partners' bank credit facility	June 24, 2015	-	-
5.90% Senior Notes, Series 2006-A	April 30, 2016	90,000	90,000
6.30% Senior Notes, Series 2008-A	April 30, 2013	35,000	35,000
6.56% Senior Notes, Series 2008-B	April 30, 2015	90,000	90,000
5.09% Senior Notes, Series 2010-A	December 15, 2017	65,000	65,000
5.67% Senior Notes, Series 2010-B	December 15, 2020	25,000	25,000
European bank credit facility		-	-
Other		35	35
Total debt		305,035	305,035
Less current portion		(35,035)	(35)
Total long-term debt		$ 270,000	$ 305,000

In July 2012, we borrowed $38.0 million and 10.0 million euros (approximately $12.1 million equivalent) pursuant to our revolving credit facility. Also in July 2012, Compressco Partners borrowed $5.8 million pursuant to its bank credit facility.

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 abandonment, decommissioning, and debris removal costs associated with offshore platforms previously destroyed by hurricanes. The amount of decommissioning liabilities recorded by Maritech is reduced by amounts allocable to joint interest owners and any contractual amounts to be paid by the previous owners of the oil and gas properties when the liabilities are satisfied.

The changes in the asset retirement obligations during the three month and six month periods ended June 30, 2012 and 2011, are as follows:

	Three Months Ended June 30,	
	2012	2011
	(In Thousands)	
Beginning balance for the period, as reported	$ 126,844	$ 230,834

Activity in the period:				
Accretion of liability		501		1,264
Retirement obligations incurred		-		-
Revisions in estimated cash flows		7,876		16,045
Settlement of retirement obligations		(22,083)		(103,618)
Ending balance as of June 30	$	113,138	$	144,525

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	Six Months Ended June 30, 2012	2011
	(In Thousands)	
Beginning balance for the period, as reported	$ 139,835	$ 272,815
Activity in the period:		
Accretion of liability	1,021	3,158
Retirement obligations incurred	-	-
Revisions in estimated cash flows	10,106	25,809
Settlement of retirement obligations	(37,824)	(157,257)
Ending balance as of June 30	$ 113,138	$ 144,525

Revisions in estimated cash flows during the second quarter of 2012 resulted primarily from additional work anticipated to be required on Maritech's offshore oil and gas properties. Settlements of retirement obligations during the three and six months ended June 30, 2011, include approximately $72.7 and $118.7 million, respectively, of obligations associated with oil and gas properties sold by Maritech during these periods.

NOTE E – HEDGE CONTRACTS

We are exposed to financial and market risks that affect our businesses. We have currency exchange rate risk exposure related to transactions denominated in a foreign currency as well as to investments in certain of our international operations. As a result of our variable rate bank credit facilities, 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 owed to us by companies in the energy industry. Our financial risk management activities may at times involve, among other measures, the use of derivative financial instruments, such as swap and collar agreements, to hedge the impact of market price risk exposures. Prior to the sale of substantially all of our remaining Maritech oil and gas properties in May 2011, we utilized cash flow commodity hedge transactions to reduce our exposure related to the volatility of oil and gas prices. These cash flow commodity hedge contracts were liquidated in the second quarter of 2011. For these and other hedge contracts, we formally document the relationships between hedging instruments and hedged items, as well as our risk management objectives, our strategies for undertaking various hedge transactions, and our methods for assessing and testing correlation and hedge ineffectiveness. All hedging instruments are linked to the hedged asset, liability, firm commitment, or forecasted transaction. We also assess, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in these hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

Derivative Hedge Contracts

In April 2011, following the execution of the purchase and sale agreement pursuant to which Maritech agreed to sell approximately 79% of its proved reserves, we liquidated our remaining oil hedge contracts and paid $14.2 million to the counterparty. Therefore, from April 2011 forward, we have had no remaining cash flow hedging swap contracts outstanding associated with our Maritech subsidiary's oil or gas production.

Prior to their liquidation during 2011, we believe that our swap agreements were "highly effective cash flow hedges," in managing the volatility of future cash flows associated with Maritech's oil production. The effective portion of the change in the derivative’s 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) was initially reported as a component of accumulated other comprehensive income, which was classified within equity. This component of accumulated other comprehensive income associated with cash flow hedge derivative contracts, including any derivative contracts which have been liquidated, was subsequently reclassified into product sales revenues, utilizing the specific identification method, when the hedged exposure affected earnings (i.e., when hedged oil and gas production volumes were reflected in revenues). Any “ineffective” portion of the change in the derivative’s fair value was recognized in earnings immediately.

Pretax gains and losses associated with oil and gas derivative swap contracts for the three and six month periods ended June 30, 2011, are summarized below:

Derivative Swap Contracts	Three Months Ended June 30, 2011 Oil	Natural Gas (In Thousands)	Total
Amount of pretax gain reclassified from accumulated other comprehensive income into product sales revenue (effective portion)	$-	$-	$-
Amount of pretax gain (loss) from change in derivative fair value recognized in other comprehensive income	-	-	-
Amount of pretax gain (loss) recognized in other income (expense) (ineffective portion)	(14,224)	-	(14,224)

Derivative Swap Contracts	Six Months Ended June 30, 2011 Oil	Natural Gas (In Thousands)	Total
Amount of pretax gain reclassified from accumulated other comprehensive income into product sales revenue (effective portion)	$1,177	$-	$1,177
Amount of pretax gain (loss) from change in derivative fair value recognized in other comprehensive income	(7,854)	-	(7,854)
Amount of pretax gain (loss) recognized in other income (expense) (ineffective portion)	(13,947)	-	(13,947)

Other Hedge Contracts

In July 2012, we borrowed 10.0 million euros (approximately $12.1 million equivalent) and designated the borrowing as a hedge of our net investment in our European operations.

NOTE F – EQUITY

Changes in equity for the three month and six month periods ended June 30, 2012 and 2011, are as follows:

	Three Months Ended June 30, 2012			2011		
	TETRA	Noncontrolling Interest	Total	TETRA	Noncontrolling Interest	Total
			(In Thousands)			
Beginning balance for the period	$ 534,478	$ 41,291	$ 575,769	$ 517,353	$ -	$ 517,353
Net income	11,574	607	12,181	30,374	95	30,469
Changes in commodity derivatives, net of taxes of $4,165	-	-	-	7,030	-	7,030
Foreign currency translation adjustment, net of taxes of $1,185 and $(582), respectively	(6,942)	-	(6,942)	2,229	-	2,229

Exercise of common stock options	280	-	280	491	-	491
Issuance of Compressco Partners common units, net of offering costs	-	-	-	-	42,885	42,885
Distributions to public unitholders	-	(1,066)	(1,066)	-	-	-
Equity-based compensation	1,521	377	1,898	1,303	-	1,303
Treasury stock and other	(136)	120	(16)	(684)	-	(684)
Tax benefit upon exercise of stock options	(19)	-	(19)	532	-	532
Ending balance as of June 30	$ 540,794	$ 41,329	$ 582,123	$ 558,628	$ 42,980	$ 601,608

	Six Months Ended June 30, 2012			2011		
	TETRA	Noncontrolling Interest	Total	TETRA	Noncontrolling Interest	Total
	(In Thousands)					
Beginning balance for the period	$ 527,146	$ 41,942	$ 569,088	$ 516,323	$ -	$ 516,323
Net income	12,255	1,073	13,328	27,859	95	27,954
Changes in commodity derivatives, net of taxes of $1,578	-	-	-	2,663	-	2,663
Foreign currency translation adjustment, net of taxes of $851 and $(770), respectively	(3,020)	-	(3,020)	5,713	-	5,713
Exercise of common stock options	758	-	758	2,805	-	2,805
Issuance of Compressco Partners common units, net of offering costs	-	-	-	-	42,885	42,885
Distributions to public unitholders	-	(2,275)	(2,275)	-	-	-
Equity-based compensation	3,604	649	4,253	(1,269)	-	(1,269)
Treasury stock and other	(146)	(60)	(206)	3,140	-	3,140
Tax benefit upon exercise of stock options	197	-	197	1,394	-	1,394
Ending balance as of June 30	$ 540,794	$ 41,329	$ 582,123	$ 558,628	$ 42,980	$ 601,608

NOTE G – COMMITMENTS AND CONTINGENCIES

Litigation

We are named defendants in several lawsuits and respondents in certain governmental proceedings arising in the ordinary course of business. While the outcome of lawsuits or other proceedings against us cannot be predicted with certainty, management does not reasonably expect these matters to have a material adverse impact on our financial position, results of operations, or liquidity.

Environmental

One of our subsidiaries, TETRA Micronutrients, Inc. (TMI), previously owned and operated a production facility located in Fairbury, Nebraska. TMI is subject to an Administrative Order on Consent issued to American Microtrace, Inc. (n/k/a/ TETRA Micronutrients, Inc.) in the proceeding styled In the Matter of American Microtrace Corporation, EPA I.D. No. NED00610550, Respondent, Docket No. VII-98-H-0016, dated September 25, 1998 (the Consent Order), with regard to the Fairbury facility. TMI is liable for future remediation costs and ongoing environmental monitoring at the Fairbury facility under the Consent Order; however, the current owner of the Fairbury facility is responsible for costs associated with the closure of that facility.

NOTE H – INDUSTRY SEGMENTS

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

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

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

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In Thousands)			
Revenues from external customers				
Product sales				
Fluids Division	$72,739	$68,430	$134,271	$127,934
Production Enhancement Division				
Production Testing	-	-	-	-
Compressco	1,057	2,513	2,219	5,003
Total Production Enhancement Division	1,057	2,513	2,219	5,003
Offshore Division				
Offshore Services	882	1,192	2,877	2,127
Maritech	1,104	33,155	3,644	76,749
Total Offshore Division	1,986	34,347	6,521	78,876
Consolidated	$75,782	$105,290	$143,011	$211,813
Services and rentals				
Fluids Division	$17,006	$20,365	$34,782	$38,191
Production Enhancement Division				
Production Testing	50,329	31,738	88,612	64,948
Compressco	24,201	19,813	45,721	39,207
Intersegment eliminations	-	-	-	-
Total Production Enhancement Division	74,530	51,551	134,333	104,155
Offshore Division				
Offshore Services	79,794	86,060	122,894	136,840
Maritech	75	227	150	655
Intersegment eliminations	(12,403)	(28,421)	(19,715)	(34,037)
Total Offshore Division	67,466	57,866	103,329	103,458
Corporate overhead	125	42	250	42
Consolidated	$159,127	$129,824	$272,694	$245,846
Intersegment revenues				
Fluids Division	$102	$34	$127	$48
Production Enhancement Division				
Production Testing	-	1	-	1
Compressco	-	-	-	-
Total Production Enhancement Division	-	1	-	1
Offshore Division				
Offshore Services	-	3	-	3
Maritech	-	-	-	-
Intersegment eliminations	-	-	-	-
Total Offshore Division	-	3	-	3
Intersegment eliminations	(102)	(38)	(127)	(52)
Consolidated	$-	$-	$-	$-
Total revenues				
Fluids Division	$89,847	$88,829	$169,180	$166,173
Production Enhancement Division				

Production Testing	50,329	31,739	88,612	64,949
Compressco	25,258	22,326	47,940	44,210
Intersegment eliminations	-	-	-	-
Total Production Enhancement Division	75,587	54,065	136,552	109,159
Offshore Division				
Offshore Services	80,676	87,255	125,771	138,970
Maritech	1,179	33,382	3,794	77,404
Intersegment eliminations	(12,403)	(28,421)	(19,715)	(34,037)
Total Offshore Division	69,452	92,216	109,850	182,337
Corporate overhead	125	42	250	42
Intersegment eliminations	(102)	(38)	(127)	(52)
Consolidated	$234,909	$235,114	$415,705	$457,659

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In Thousands)			
Income (loss) before taxes and discontinued operations				
Fluids Division	$13,959	$11,545	$25,424	$18,794
Production Enhancement Division				
Production Testing	11,170	5,988	16,847	15,071
Compressco	4,645	3,809	8,155	7,814
Total Production Enhancement Division	15,815	9,797	25,002	22,885
Offshore Division				
Offshore Services	11,764	13,577	10,731	9,201
Maritech	(8,626)	38,523	(10,707)	34,003
Intersegment eliminations	-	1,588	-	1,747
Total Offshore Division	3,138	53,688	24	44,951
Corporate overhead	(14,472)(1)	(27,476)(1)	(30,258)(1)	(43,117)(1)
Consolidated	$18,440	$47,554	$20,192	$43,513

	June 30,	
	2012	2011
	(In Thousands)	
Total assets		
Fluids Division	$ 354,680	$ 384,744
Production Enhancement Division		
Production Testing	266,991	97,675
Compressco	211,276	218,020
Total Production Enhancement Division	478,267	315,695
Offshore Division		
Offshore Services	225,722	167,749
Maritech	48,939	30,775
Intersegment eliminations	-	(55)
Total Offshore Division	274,661	198,469
Corporate overhead	91,162 (2)	352,044 (2)
Consolidated	$ 1,198,770	$ 1,250,952

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In Thousands)			
General and administrative expense	$ 9,246	$ 8,282	$ 19,158	$ 18,650
	864	729	1,733	1,414

Depreciation and amortization				
Interest expense	4,045	4,140	8,236	8,494
Other general corporate (income) expense, net	317	14,325	1,131	14,559
Total	$ 14,472	$ 27,476	$ 30,258	$ 43,117

(2) Includes assets of discontinued operations.

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

Business Overview

Our revenues and operating profitability for the quarter ended June 30, 2012, reflect the growth of several of our businesses compared to the prior year period. In particular, the results of our Production Testing segment for the period include the impact of its acquisitions of Optima Solutions Holdings Limited (Optima) and Eastern Reservoir Services (ERS) which were both acquired during 2012. In addition, in July 2012, the Production Testing segment acquired the assets and operations of Greywolf Production Systems, Inc. and GPS Ltd. (together Greywolf) for cash of $55.5 million, which is expected to result in further growth to this segment. Greywolf is a provider of well testing and after-frac flow back services to oil and gas operators, primarily in Western Canada and the Williston Basin area of the northern United States. In addition, our Compressco segment, primarily through the Compressco Partners, L.P. subsidiary (Compressco Partners), reflected growth during the current year quarter compared to the prior year period, primarily as a result of increased Latin America demand. Our Fluids segment also reported increased revenues and profitability compared to the prior year period, primarily due to increased clear brine fluids (CBF) product sales activity. Partially offsetting the revenue growth in these segments, our Offshore Services segment reported decreased revenues and profitability during the current year quarter due to a number of factors, including weather disruptions, customer permitting delays, and increased competition and pricing pressures. Following the sales of its oil and gas producing properties, our Maritech segment now generates minimal revenues going forward. The most significant sale of Maritech producing properties occurred in the second quarter of 2011 and resulted in a $58.2 million gain during that period. Increased gross profit was partially offset by increased general and administrative expense, primarily due to the above mentioned acquisitions and due to the increased administrative costs of Compressco Partners. Corporate overhead decreased compared to the prior year period, primarily due to the $14.2 million charge during the prior year period for hedge ineffectiveness recorded from the liquidation of hedges associated with Maritech production cash flows.

With the acquisition of Greywolf, we have now completed three significant acquisitions during 2012, spending an aggregate of approximately $163 million of cash. The majority of the aggregate consideration for these acquisitions was funded from available cash, but in July 2012, we borrowed approximately $50.1 million under our revolving credit facility to fund a portion of the purchase price for Greywolf, and for general corporate purposes. Each of these acquisitions represents a strategic expansion of our Production Testing segment, and each has generated, or is expected to generate, revenues, earnings, and operating cash flows in 2012. We expect to fund our capital expenditure plans during the remainder of 2012 from our available cash and future operating cash flows. Our future operating cash flows, as well as revenues and profitability levels, are largely dependent on the level of oil and gas industry activity in the markets we serve and are significantly affected by oil and natural gas commodity prices. Given that these commodity prices have decreased from late 2011 levels, our capital expenditure and acquisition plans going forward will be reviewed carefully in light of the activity levels of our businesses. Following the July 2012 borrowings, we have approximately $219.4 million available under our revolving credit facility if needed to fund additional working capital requirements, capital expenditure plans, or additional acquisitions. We will continue to review additional suitable acquisition candidates as a part of our continuing growth strategy. Future acquisitions could be funded by existing cash balances, borrowing capacity under our bank revolving credit facility, the issuance of additional debt or equity, or other sources of capital.

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, 2011. In preparing our consolidated financial statements, we make assumptions, estimates, and judgments that affect the amounts reported. We periodically evaluate these estimates and judgments, including those related to potential impairments of long-lived assets (including goodwill), the collectability of accounts receivable, and the cost of future abandonment and decommissioning obligations. Our estimates are based on historical experience and on future expectations that we believe are reasonable. The fair values of large portions of our total assets and liabilities are measured using significant unobservable inputs. The combination of these factors forms the basis for judgments made about the carrying values of assets and liabilities that are not readily apparent from other sources. These judgments and estimates may change as new events occur, as new information is acquired, and as changes in our operating environments are encountered. Actual results are likely to differ from our current estimates, and those differences may be material.

Results of Operations

Three months ended June 30, 2012 compared with three months ended June 30, 2011.

Consolidated Comparisons

	Three Months Ended June 30,		Period to Period Change	
	2012	2011	2012 vs 2011	% Change
	(In Thousands, Except Percentages)			
Revenues	$234,909	$235,114	$(205)	-0.1 %
Gross profit	53,108	35,813	17,295	48.3 %
Gross profit as a percentage of revenue	22.6 %	15.2 %		
General and administrative expense	31,466	29,006	2,460	8.5 %
General and administrative expense as a percentage of revenue	13.4 %	12.3 %		
Interest expense, net	4,084	4,085	(1)	0.0 %
(Gain) loss on sale of assets	703	(59,577)	60,280	
Other (income) expense, net	(1,585)	14,745	(16,330)	
Income before taxes and discontinued operations	18,440	47,554	(29,114)	-61.2 %
Income before taxes and discontinued operations as a percentage of revenue	7.8 %	20.2 %		
Provision for income taxes	6,262	17,031	(10,769)	-63.2 %
Income before discontinued operations	12,178	30,523	(18,345)	-60.1 %
Income (loss) from discontinued operations, net of taxes	3	(54)	57	
Net income	12,181	30,469	(18,288)	-60.0 %
Net income attributable to noncontrolling interest	(607)	(95)	(512)	
Net income attributable to TETRA stockholders	$11,574	$30,374	$(18,800)	-61.9 %

Consolidated revenues for the quarter ended June 30, 2012, decreased only slightly compared to the prior year period, as the significant decrease in Maritech revenues was largely offset by increases in other businesses, particularly the Production Testing and Compressco segments. The increase in our Production Testing segment was primarily due to the acquisitions of Optima and ERS during the first half of 2012, although a portion of the increase was also due to increased domestic activity levels. In July 2012, the Production Testing segment acquired the assets and operations of Greywolf, which is expected to contribute additional growth going forward. Our Compressco segment reported increased revenues compared to the prior year period due to increased activity in Latin America and in domestic shale reservoir markets. Our Fluids Division revenues also increased, as domestic CBF sales more than offset the decrease in domestic services and international calcium chloride sales. Our Offshore Services segment reported decreased revenues, despite the increased decommissioning revenues generated from the heavy lift derrick barge acquired in 2011, primarily due to decreased abandonment and diving services pricing and activity levels, and also due to weather disruptions. Overall gross profit increased primarily due to the increased profitability of our Production Testing segment as a result of the activity and growth discussed above, as well as the increased profitability of our Fluids and

Compressco businesses. Our Maritech segment also reported a decreased loss due to significant impairments and excess decommissioning costs incurred during the prior year period.

Consolidated general and administrative expenses increased by $2.5 million during the second quarter of 2012 compared to the prior year period, primarily due to a $2.7 million increase by our Production Testing segment, as a result of its growth and acquisition transaction costs during the period. In addition, Compressco segment general and administrative expense increased $1.2 million as a result of increased administrative and public company costs associated with Compressco Partners being a separate publicly traded limited partnership. These increases were partially offset primarily by decreased Maritech administrative costs, which more than offset the decreased billings to joint owners. By type of cost, general and administrative expenses increased due to approximately $1.3 million of increased professional fee expenses, approximately $0.4 million of decreased billings to joint owners for Maritech administrative overhead, approximately $0.4 million of increased office costs, and approximately $0.3 million of increased insurance and taxes expense.

Consolidated other income increased during the second quarter of 2012 compared to the corresponding 2011 period, primarily due to $14.2 million of hedge ineffectiveness losses recorded during the prior year period. In addition, during the second quarter of 2011, we recorded a gain of approximately $58.2 million from the sales of Maritech's oil and gas producing properties.

Our provision for income taxes during the second quarter of 2012 decreased due to decreased earnings during the current year period.

Divisional Comparisons

Fluids Division

	Three Months Ended June 30,		Period to Period Change	
	2012	2011	2012 vs 2011	% Change
	(In Thousands, Except Percentages)			
Revenues	$89,847	$88,829	$1,018	1.1 %
Gross profit	21,327	18,778	2,549	13.6 %
Gross profit as a percentage of revenue	23.7 %	21.1 %		
General and administrative expense	7,872	7,363	509	6.9 %
General and administrative expense as a percentage of revenue	8.8 %	8.3 %		
Interest (income) expense, net	34	26	8	
Other (income) expense, net	(538)	(156)	(382)	
Income before taxes and discontinued operations	$13,959	$11,545	$2,414	20.9 %
Income before taxes and discontinued operations as a percentage of revenue	15.5 %	13.0 %		

The increase in Fluids Division revenues during the second quarter of 2012 compared to the prior year period was primarily due to a $4.3 million net increase in product sales revenues. This increase was due to $9.2 million of increased CBFs product sales revenues. The majority of these increased revenues were from the segment's U.S. operations, although international revenues from CBF sales also increased. Partially offsetting this increase in CBF revenues was approximately $4.9 million of decreased revenue from manufactured products, primarily from decreased industrial demand due to weather, particularly in Europe. Onshore domestic activity levels were increased as compared to the prior year period, primarily in shale reservoir markets. The increase in product sales revenues was partially offset by $3.4 million in decreased service revenues, due to decreased domestic frac water service activity.

Fluids Division gross profit increased compared to the prior year period, primarily as a result of the increased domestic CBF revenues discussed above. This increase was partially offset by decreased gross profit from the Division's European manufactured products operation, which was impacted by the decreased demand discussed above. In addition, the Division's European calcium chloride plant is expected to experience reduced production levels associated with unplanned equipment repairs, which are expected to be completed during the third quarter of 2012.

Fluids Division income before taxes increased compared to the prior year period due to the increase in gross profit discussed above and increased other income, and despite increased administrative costs. Other income increased primarily due to increased income from an unconsolidated joint venture. Fluids Division administrative costs increased primarily due to increased personnel-related costs.

Production Enhancement Division

Production Testing Segment

	Three Months Ended June 30,		Period to Period Change	
	2012	2011	2012 vs 2011	% Change
	(In Thousands, Except Percentages)			
Revenues	$50,329	$31,739	$18,590	58.6 %
Gross profit	15,420	9,065	6,355	70.1 %
Gross profit as a percentage of revenue	30.6 %	28.6 %		
General and administrative expense	5,622	2,935	2,687	91.6 %
General and administrative expense as a percentage of revenue	11.2 %	9.2 %		
Interest (income) expense, net	25	-	25	
Other (income) expense, net	(1,397)	142	(1,539)	
Income before taxes and discontinued operations	$11,170	$5,988	$5,182	86.5 %
Income before taxes and discontinued operations as a percentage of revenue	22.2 %	18.9 %		

Production Testing revenues increased during the second quarter of 2012 due to an increase of approximately $10.3 million in domestic revenues. This increase was primarily a result of acquisitions and the increased domestic onshore oil and gas drilling activity compared to the prior year period. In particular, the Production Testing segment capitalized on the increased domestic onshore activity associated with drilling in many of the shale reservoir markets it serves. Domestic revenues also increased due to approximately $7.0 million of revenues associated with the April 2012 acquisition of ERS. In addition, international revenues increased by approximately $8.3 million, primarily due to the March 2012 acquisition of Optima, which generated approximately $7.0 million of increased revenues. International revenues also grew due to increased revenue from a South American technical management contract compared to the 2011 period. During July 2012, the Production Testing segment acquired the assets and operations of Greywolf. Revenues of this segment are expected to further increase going forward as a result of these acquisitions.

Production Testing segment gross profit increased during the second quarter of 2012, primarily due to increased international profitability compared to the prior year period, particularly from the March 2012 acquisition of Optima and due to the South American technical management contract discussed above. Revenue and gross profit from this ongoing contract is recognized upon achieving contract milestones. In addition, segment gross profit from domestic activity also increased due to the impact from the ERS acquisition as well as from the increased domestic activity discussed above.

Production Testing income before taxes increased due to the increased gross profit discussed above as well as due to increased other income that resulted from increased earnings from an unconsolidated joint venture and increased foreign currency gains. These increases were partially offset by increased administrative expenses due primarily to increased personnel-related costs associated with the Optima and ERS acquisitions, and approximately $0.3 million of transaction costs expensed in connection with these acquisitions.

Compressco Segment

	Three Months Ended June 30,		Period to Period Change	
	2012	2011	2012 vs 2011	% Change
	(In Thousands, Except Percentages)			
Revenues	$25,258	$22,326	$2,932	13.1 %
Gross profit	9,241	6,925	2,316	33.4 %
Gross profit as a percentage of revenue	36.6 %	31.0 %		
General and administrative expense	4,152	2,994	1,158	38.7 %
General and administrative expense as a percentage of revenue	16.4 %	13.4 %		
Interest (income) expense, net	(10)	(4)	(6)	
Other (income) expense, net	454	126	328	
Income before taxes and discontinued operations	$4,645	$3,809	$836	21.9 %
Income before taxes and discontinued operations as a percentage of revenue	18.4 %	17.1 %		

The increase in Compressco revenues compared to the prior year period was due to an increase of $4.4 million of service revenues resulting from increased activity, particularly in Latin America and in domestic shale reservoir markets. Partially offsetting this increase was a $1.5 million decrease from sales of compressor units and parts during the second quarter compared to the prior year. Compressco has increased its compressor fleet in Latin America to serve the increasing demand.

Compressco gross profit increased during the second quarter of 2012 compared to the prior year period, primarily due to the increased Latin America activity discussed above. In addition, Compressco has reduced its domestic operating expenses, including maintenance, fuel, and labor costs, and plans to further improve its domestic operating profitability going forward.

Income before taxes for Compressco increased during the second quarter of 2012 compared to the prior year period due to the increased gross profit discussed above, despite increased administrative expenses. Compressco's administrative expenses reflect increased administrative staff expenses as a result of Compressco Partners becoming a separate publicly traded limited partnership in the second quarter of 2011. In addition, general and administrative expense during the second quarter of 2012 also includes the allocation of a portion of our corporate administrative expenses to Compressco Partners pursuant to our Omnibus Agreement with Compressco Partners executed in connection with its initial public offering.

Offshore Division

Offshore Services Segment

	Three Months Ended June 30,		Period to Period Change	
	2012	2011	2012 vs 2011	% Change
	(In Thousands, Except Percentages)			

Revenues	$80,676		$87,255		$(6,579	)	-7.5	%
Gross profit	15,124		16,433		(1,309	)	-8.0	%
Gross profit as a percentage of revenue	18.7	%	18.8	%				
General and administrative expense	3,659		4,093		(434	)	-10.6	%
General and administrative expense as a percentage of revenue	4.5	%	4.7	%				
Interest (income) expense, net	27		-		27			
Other (income) expense, net	(326	)	(1,237	)	911			
Income before taxes and discontinued operations	$11,764		$13,577		$(1,813	)	-13.4	%
Income before taxes and discontinued operations as a percentage of revenue	14.6	%	15.6	%				

Revenues from our Offshore Services segment decreased during the second quarter of 2012 compared to the prior year quarter. Increased decommissioning services revenues, including those from the heavy lift barge purchased during 2011, were more than offset by decreased abandonment, diving, and cutting services revenue during the current year period. In addition to the continuing challenges of increased competition, pricing pressures, and permitting delays experienced by several of the Offshore Services segment's customers, the segment also experienced weather disruptions during the current year quarter, particularly from Tropical Storm Debby. In addition, revenues decreased due to the 2011 sale of the segment's onshore abandonment operations, which generated approximately $1.9 million in revenues during the prior year period. Approximately $12.4 million of Offshore Services revenues were from work performed for Maritech during the second quarter of 2012, compared to $28.4 million of such work in the prior year period, as Maritech continues to decommission and abandon its remaining oil and gas platform structures. These intercompany revenues are eliminated in consolidation.

Gross profit for the Offshore Services segment during the second quarter of 2012 decreased as compared to the prior year period, primarily due to decreased profitability of our abandonment, diving, and cutting services revenues, mostly as a result of the decreased pricing during the current year quarter. This decrease was partially offset by improved profitability of our decommissioning operations.

Offshore Services segment income before taxes decreased primarily due to the reduced gross profit discussed above and decreased other income, which was caused by the gain on the sale of onshore abandonment operations during the prior year period.

Maritech Segment

	Three Months Ended June 30,		Period to Period Change	
	2012	2011	2012 vs 2011	% Change
	(In Thousands, Except Percentages)			
Revenues	$1,179	$33,382	$(32,203)	-96.5%
Gross profit (loss)	(7,263)	(14,737)	7,474	50.7%
Gross profit (loss) as a percentage of revenue	-616.0%	-44.1%		
General and administrative expense	915	3,338	(2,423)	-72.6%
General and administrative expense as a percentage of revenue	77.6%	10.0%		
Interest (income) expense, net	-	(1		