TETRA TECHNOLOGIES INC
Form 10-Q
November 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 **SEPTEMBER 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	74-2148293
(State of incorporation)	(I.R.S. Employer Identification No.)
24955 Interstate 45 North	
The Woodlands, Texas	77380
(Address of principal executive offices)	(zip code)

(281) 367-1983

(Registrant’s telephone number, including area code)

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

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

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

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

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

As of November 5, 2012, there were 78,081,789 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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Revenues:				
Product sales	$ 61,597	$ 53,225	$ 204,608	$ 265,038
Services and rentals	172,389	148,209	445,083	394,055
Total revenues	233,986	201,434	649,691	659,093
Cost of revenues:				
Cost of product sales	54,996	56,738	168,002	216,442
Cost of services and rentals	107,875	92,802	288,517	254,251
Depreciation, depletion, amortization, and accretion	20,232	16,226	56,786	90,555
Total cost of revenues	183,103	165,766	513,305	561,248
Gross profit	50,883	35,668	136,386	97,845
General and administrative expense	34,210	27,506	96,567	84,274
Interest expense, net	4,258	4,085	12,493	12,361
(Gain) loss on sale of assets	129	525	(3,135)	(59,784)
Other (income) expense, net	(790)	722	(2,807)	14,651
Income before taxes and discontinued operations	13,076	2,830	33,268	46,343
Provision for income taxes	4,475	870	11,341	16,372
Income before discontinued operations	8,601	1,960	21,927	29,971
Income (loss) from discontinued operations, net of taxes	1	(6)	3	(63)
Net income	8,602	1,954	21,930	29,908
Net (income) loss attributable to noncontrolling interest	(889)	(567)	(1,962)	(662)

Net income attributable to TETRA stockholders	$ 7,713	$ 1,387	$ 19,968	$ 29,246
Basic net income per common share:				
Income before discontinued operations attributable to				
TETRA stockholders	$ 0.10	$ 0.02	$ 0.26	$ 0.38
Income (loss) from discontinued operations attributable to				
TETRA stockholders	0.00	(0.00)	0.00	(0.00)
Net income attributable to TETRA stockholders	$ 0.10	$ 0.02	$ 0.26	$ 0.38
Average shares outstanding	77,329	76,717	77,226	76,517
Diluted net income per common share:				
Income before discontinued operations attributable to				
TETRA stockholders	$ 0.10	$ 0.02	$ 0.25	$ 0.37
Income (loss) from discontinued operations attributable to				
TETRA stockholders	0.00	(0.00)	0.00	(0.00)
Net income attributable to TETRA stockholders	$ 0.10	$ 0.02	$ 0.25	$ 0.37
Average diluted shares outstanding	78,938	78,340	78,740	78,105

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(In Thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	$ 8,602	$ 1,954	$ 21,930	$ 29,908
Foreign currency translation adjustment, net of				
tax expense of $41 and $892, respectively, in 2012				
and tax benefit of $1,825 and $1,055, respectively, in 2011	5,074	(9,132)	2,054	(3,419)
Net change in derivative fair value, net of taxes of				
$0 and $1,578, respectively, in 2011	&#8211	&#8211	&#8211	2,663
Comprehensive income (loss)	13,676	(7,178)	23,984	29,152
Less: comprehensive income attributable to				
noncontrolling interest	(889)	(567)	(1,962)	(662)
Comprehensive income (loss) attributable to				
TETRA stockholders	$ 12,787	$ (7,745)	$ 22,022	$ 28,490

See Notes to Consolidated Financial Statement

2

TETRA Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	September 30, 2012		December 31, 2011	
	(Unaudited)			
ASSETS				
Current assets:				
Cash and cash equivalents	$	20,908	$	204,412
Restricted cash		5,568		8,780
Trade accounts receivable, net of allowances for doubtful				
accounts of $863 in 2012 and $1,849 in 2011		218,132		141,537
Deferred tax asset		30,240		39,330
Inventories		102,049		99,985
Oil and gas properties held for sale		19		3,743
Prepaid expenses and other current assets		27,253		30,714
Total current assets		404,169		528,501
Property, plant, and equipment				
Land and building		79,112		76,937
Machinery and equipment		607,103		530,408
Automobiles and trucks		55,579		46,950
Chemical plants		159,932		158,065
Construction in progress		47,566		25,316
Total property, plant, and equipment		949,292		837,676
Less accumulated depreciation		(344,444)		(308,375)
Net property, plant, and equipment		604,848		529,301
Other assets:				
Goodwill		188,866		99,132
Patents, trademarks and other intangible assets, net of accumulated				
amortization of $25,764 in 2012 and $22,572 in 2011		37,963		11,872
Deferred tax assets		71		258
Other assets		42,477		34,246
Total other assets		269,377		145,508
Total assets	$	1,278,394	$	1,203,310

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands, Except Share Amounts)

	September 30, 2012		December 31, 2011	
	(Unaudited)			
LIABILITIES AND EQUITY				
Current liabilities:				
Trade accounts payable	$	64,503	$	46,382
Accrued liabilities		85,540		80,940
Current portion of long-term debt		35,665		35
Decommissioning and other asset retirement obligations, net		75,804		105,008
Total current liabilities		261,512		232,365
Long-term debt, net		332,960		305,000
Deferred income taxes		47,237		48,537
Decommissioning and other asset retirement obligations, net		23,702		34,827
Other liabilities		16,495		13,493
Total long-term liabilities		420,394		401,857
Equity:				
TETRA Stockholders' equity:				
Common stock, par value $0.01 per share; 100,000,000 shares				
authorized; 80,390,787, shares issued at September 30, 2012,				
and 79,673,374 shares issued at December 31, 2011		803		797
Additional paid-in capital		225,713		220,144
Treasury stock, at cost; 2,314,250 shares held at September 30, 2012,				
and 2,249,959 shares held at December 31, 2011		(14,958)		(14,841)
Accumulated other comprehensive income (loss)		(823)		(2,877)
Retained earnings		343,891		323,923
Total TETRA stockholders' equity		554,626		527,146
Noncontrolling interests		41,862		41,942
Total equity		596,488		569,088
Total liabilities and equity	$	1,278,394	$	1,203,310

See Notes to Consolidated Financial Statements

4

TETRA Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Nine Months Ended September 30,					
	2012			2011		
Operating Activities:						
Net Income	$	21,930		$	29,908	
Reconciliation of net income to cash provided by (used in) operating activities:						
Depreciation, depletion, amortization, and accretion		56,786			78,021	
Impairments of long-lived assets		&#8211			12,534	
Provision (benefit) for deferred income taxes		1,083			11,241	
Equity-based compensation expense		7,393			4,417	
Provision for doubtful accounts		(893)			963	
Gain on sale of assets		(3,135)			(59,784)	
Other non-cash charges and credits		14,219			34,721	
Changes in operating assets and liabilities, net of assets acquired:						
Accounts receivable		(71,758)			(3,541)	
Inventories		(3,098)			6,006	
Prepaid expenses and other current assets		4,790			26,422	
Trade accounts payable and accrued expenses		19,022			(29,695)	
Decommissioning liabilities		(66,121)			(66,147)	
Other		2,338			3,317	
Net cash provided by (used in) operating activities		(17,444)			48,383	
Investing Activities:						
Purchases of property, plant and equipment		(80,608)			(99,857)	
Acquisition of businesses, net		(163,305)			(1,500)	
Proceeds on sale of property, plant, and equipment		12,752			187,843	
Other Investing activities		3,277			(26,386)	
Net cash provided by (used in) investing activities		(227,884)			60,100	
Financing Activities:						
Proceeds from long-term debt		64,176			&#8211	
Payments of long-term debt		(2,073)			&#8211	
Compressco Partners' distributions		(3,393)			(125)	
Proceeds from exercise of stock options		675			2,432	
Proceeds from issuance of Compressco Partners' common units,						

net of underwriters' discount		&#8211		50,234
Compressco Partners' offering costs		&#8211		(2,038)
Excess tax benefit from equity compensation		205		1,268
Net cash provided by (used in) financing activities		59,590		51,771
Effect of exchange rate changes on cash		2,234		(726)
Increase (decrease) in cash and cash equivalents		(183,504)		159,528
Cash and cash equivalents at beginning of period		204,412		65,360
Cash and cash equivalents at end of period	$	20,908	$	224,888
Supplemental cash flow information:				
Interest paid	$	9,083	$	9,073
Income taxes paid (refunded)		7,066		(13,887)
Supplemental disclosure of non-cash investing and financing activities:				
Adjustment of fair value of decommissioning liabilities				
capitalized to oil and gas properties	$	&#8211	$	1,790

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 September 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 September 30, 2012, and December 31, 2011, are as follows:

	September 30, 2012				December 31, 2011		
	(In Thousands)						
Finished goods	$	71,703			$	71,247	
Raw materials		5,051				5,653	
Parts and supplies		24,195				22,216	
Work in progress		1,100				869	
Total inventories	$	102,049			$	99,985	

6

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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(In Thousands)			
Number of weighted average common shares outstanding	77,329	76,717	77,226	76,517
Assumed exercise of stock awards	1,609	1,623	1,514	1,588
Average diluted shares outstanding	78,938	78,340	78,740	78,105

In applying the treasury stock method to determine the dilutive effect of the stock options outstanding during the first nine months of 2012, we used the average market price of our common stock of $7.96. For the three months ended September 30, 2012 and 2011, the average diluted shares outstanding excludes the impact of 2,144,779 and 2,054,303 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 months ended September 30, 2012 and 2011, the average diluted shares outstanding excludes the impact of 2,576,375 and 1,874,492 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 September 30, 2012, and December 31, 2011, were approximately $334.1 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.

NOTE B – ACQUISITIONS AND DISPOSITIONS

Acquisition of Optima

On March 9, 2012, we acquired 100% of the outstanding common stock of Optima Solutions Holdings Limited (Optima), a provider of rig cooling services and associated products that suppress heat generated by high- rate flaring of hydrocarbons during 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 nine month period ended September 30, 2012, our revenues, depreciation and amortization, and pretax earnings included $15.1 million, $3.1 million, and $3.6 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 nine month period.

Acquisition of ERS

On April 23, 2012, we acquired the assets and operations of Eastern Reservoir Services (ERS), a division of Patterson-UTI Energy, Inc. for a cash purchase price of $42.5 million. ERS is a provider of production testing and after-frac flow back services to oil and gas operators in the Appalachian and U.S. Rocky Mountain regions, and the acquisition represents a strategic geographic 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 $18.5 million of property, plant, and equipment, approximately $3.4 million of certain intangible assets, and approximately $20.6 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 $20.6 million of goodwill preliminarily recorded to our Production Testing segment as a result of the ERS acquisition is supported by the strategic benefits discussed above to be generated from the acquisition. For the nine month period ended September 30, 2012, our revenues, depreciation and amortization, and pretax earnings included $16.0 million, $1.8 million, and $4.7 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 $0.5 million were also charged to general and administrative expense during the nine month period.

Acquisition of Greywolf

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

We allocated the purchase price to the fair value of the assets acquired, which consisted of approximately $17.7 million of property, plant, and equipment, approximately $3.5 million of certain intangible assets, and approximately $34.3 million of nondeductible goodwill. This allocation of the purchase price to the Greywolf 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 during the first quarter of 2013 and could result in adjustments to the calculated depreciation and amortization of the tangible and intangible assets, respectively. The $34.3 million of goodwill preliminarily recorded to our Production Testing segment as a result of the Greywolf acquisition is supported by the strategic benefits discussed above to be generated from the acquisition. For the nine month period ended September 30, 2012, our revenues, depreciation and amortization, and pretax earnings included $5.9 million, $0.4 million, and $1.2 million, respectively, associated with the acquired operations of Greywolf after the closing in July 2012. In addition to the above impact on our results of operations, transaction costs associated with the Greywolf acquisition of approximately $0.7 million were also charged to general and administrative expense during the nine month period.

Pro Forma Financial Information

The pro forma information presented below has been prepared to give effect to the acquisitions of Optima, ERS, and Greywolf as if they had occurred at the beginning of the periods presented and include the impact from the allocation of the purchase price on depreciation and amortization. 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In Thousands, Except Per Share Amounts)			
Revenues	$ 237,781	$ 229,130	$ 693,655	$ 730,479
Depreciation, depletion, amortization, and accretion	$ 20,424	$ 18,625	$ 59,809	$ 97,509
Gross Profit	$ 51,096	$ 45,222	$ 148,218	$ 119,640
Income before discontinued operations	$ 8,897	$ 3,290	$ 28,851	$ 36,352
Net income	$ 8,898	$ 3,284	$ 28,854	$ 36,289
Net income attributable to				
TETRA stockholders	$ 8,009	$ 2,717	$ 26,892	$ 35,627
Per share information:				
Income before discontinued operations				
attributable to TETRA stockholders				
Basic	$ 0.10	$ 0.04	$ 0.35	$ 0.47
Diluted	$ 0.10	$ 0.03	$ 0.34	$ 0.46

Net income attributable to								
TETRA stockholders								
Basic	$	0.10	$	0.04	$	0.35	$	0.47
Diluted	$	0.10	$	0.03	$	0.34	$	0.46

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 consideration of approximately $4.4 million. 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:

		September 30, 2012		December 31, 2011
		(In Thousands)		
	Scheduled Maturity			
Bank revolving line of credit facility	June 26, 2015	$ 57,160		$ –
Compressco Partners' bank credit facility	June 24, 2015	5,800		–
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		665		35
Total debt		368,625		305,035
Less current portion		(35,665)		(35)
Total long-term debt		$ 332,960		$ 305,000

Subsequent to September 30, 2012, and as of November 9, 2012, we borrowed an additional $13.7 million pursuant to our revolving 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 decommissioning and debris removal costs associated with one remaining offshore platform previously destroyed by hurricanes. The amount of decommissioning liabilities recorded by Maritech is reduced by amounts allocable to joint interest owners 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 and nine month periods ended September 30, 2012 and 2011, are as follows:

	Three Months Ended September 30,						
	2012			2011			
	(In Thousands)						
Beginning balance for the period, as reported	$	113,138			$	144,525	
Activity in the period:							
Accretion of liability		285				631	
Revisions in estimated cash flows		9,187				14,311	
Settlement of retirement obligations		(23,104)				(25,872)	
Ending balance as of September 30	$	99,506			$	133,595	

	Nine Months Ended September 30,						
	2012			2011			
	(In Thousands)						
Beginning balance for the period, as reported	$	139,835			$	272,815	
Activity in the period:							
Accretion of liability		1,306				3,789	
Revisions in estimated cash flows		19,293				40,120	
Settlement of retirement obligations		(60,928)				(183,129)	
Ending balance as of September 30	$	99,506			$	133,595	

11

Revisions in estimated cash flows during the third 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 nine month periods ended September 30, 2011, include approximately $3.3 and $122.0 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, 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 nine month periods ended September 30, 2011, are summarized below:

	Nine Months Ended September 30, 2011		
Derivative Swap Contracts	Oil	Natural Gas	Total
	(In Thousands)		
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 $12.9 million equivalent as of September 30, 2012) and designated the borrowing as a hedge of our net investment in our European operations. Changes in the foreign currency exchange rate have resulted in a cumulative change to the cumulative translation adjustment account of $0.5 million, net of taxes, at September 30, 2012, with no ineffectiveness recorded.

NOTE F – EQUITY

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

	Three Months Ended September 30,					
	2012			2011		
		Noncontrolling			Noncontrolling	
	TETRA	Interest	Total	TETRA	Interest	Total
	(In Thousands)					
Beginning balance for the period	$ 540,794	$ 41,329	$ 582,123	$ 558,628	$ 42,980	$ 601,608
Net income	7,713	889	8,602	1,387	567	1,954
Changes in commodity derivatives, net of taxes of $0	&#8211	&#8211	&#8211	&#8211	&#8211	&#8211
Foreign currency translation adjustment, net of tax benefit of $41 and $1,825, respectively	5,074	&#8211	5,074	(9,132)	&#8211	(9,132)
Exercise of common stock options	61	&#8211	61	492	&#8211	492
Issuance of Compressco Partners common units, net of offering costs	&#8211	&#8211	&#8211	&#8211	(629)	(629)
Distributions to public unitholders	&#8211	(1,094)	(1,094)	&#8211	(125)	(125)
Equity-based compensation	2,476	664	3,140	1,277	&#8211	1,277
Treasury stock and other	1	74	75	(190)	&#8211	(190)
Excess tax benefit from equity compensation	(1,493)	&#8211	(1,493)	(126)	&#8211	(126)
Ending balance as of September 30,	$ 554,626	$ 41,862	$ 596,488	$ 552,336	$ 42,793	$ 595,129

	Nine Months Ended September 30,					
	2012			2011		
		Noncontrolling			Noncontrolling	
	TETRA	Interest	Total	TETRA	Interest	Total
	(In Thousands)					
Beginning balance for the period	$ 527,146	$ 41,942	$ 569,088	$ 516,323	$ &#8211	$ 516,323

Net income	19,968	1,962	21,930	29,246	662	29,908
Changes in commodity derivatives, net of						
taxes of $1,578	&#8211	&#8211	&#8211	2,663	&#8211	2,663
Foreign currency translation adjustment, net of tax						
benefit of $892 and $1,055, respectively	2,054	&#8211	2,054	(3,419)	&#8211	(3,419)
Exercise of common stock options	819	&#8211	819	3,297	&#8211	3,297
Issuance of Compressco Partners common						
units, net of offering costs	&#8211	&#8211	&#8211	&#8211	42,256	42,256
Distributions to public unitholders	&#8211	(3,369)	(3,369)	&#8211	(125)	(125)
Equity-based compensation	6,080	1,313	7,393	4,417	&#8211	4,417
Treasury stock and other	(145)	14	(131)	(1,459)	&#8211	(1,459)
Excess tax benefit from						
equity compensation	(1,296)	&#8211	(1,296)	1,268	&#8211	1,268
Ending balance as of September 30,	$ 554,626	$ 41,862	$ 596,488	$ 552,336	$ 42,793	$ 595,129

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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(In Thousands)			
Revenues from external customers				
Product sales				
Fluids Division	$ 56,485	$ 46,680	$ 190,756	$ 174,614
Production Enhancement Division				
Production Testing	&#8211	&#8211	&#8211	&#8211
Compressco	1,518	3,326	3,737	8,329
Total Production Enhancement Division	1,518	3,326	3,737	8,329
Offshore Division				
Offshore Services	2,289	1,348	5,166	3,475
Maritech	1,305	1,871	4,949	78,620
Total Offshore Division	3,594	3,219	10,115	82,095
Consolidated	$ 61,597	$ 53,225	$ 204,608	$ 265,038
Services and rentals				
Fluids Division	$ 18,735	$ 18,709	$ 53,517	$ 56,900
Production Enhancement Division				
Production Testing	56,033	37,060	144,645	102,008
Compressco	27,413	21,674	73,134	60,881
Intersegment eliminations	(624)	&#8211	(624)	&#8211
Total Production Enhancement Division	82,822	58,734	217,155	162,889
Offshore Division				
Offshore Services	76,513	87,187	199,407	224,027
Maritech	&#8211	74	150	729
Intersegment eliminations	(5,764)	(16,619)	(25,479)	(50,656)
Total Offshore Division	70,749	70,642	174,078	174,100
Corporate overhead	83	124	333	166
Consolidated	$ 172,389	$ 148,209	$ 445,083	$ 394,055
Intersegment revenues				
Fluids Division	$ 1	$ 26	$ 128	$ 74
Production Enhancement Division				
Production Testing	&#8211	&#8211	&#8211	1
Compressco	&#8211	&#8211	&#8211	&#8211
Total Production Enhancement Division	&#8211	&#8211	&#8211	1
Offshore Division				
Offshore Services	&#8211	&#8211	&#8211	3
Maritech	&#8211	&#8211	&#8211	&#8211
Intersegment eliminations	&#8211	&#8211	&#8211	&#8211
Total Offshore Division	&#8211	&#8211	&#8211	3

Intersegment eliminations		(1)				(26)				(128)				(78)		
Consolidated	$	&#8211			$	&#8211			$	&#8211			$	&#8211		

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011		Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	(In Thousands)							
Total revenues								
Fluids Division	$ 75,221		$ 65,415		$ 244,401		$ 231,588	
Production Enhancement Division								
Production Testing	56,033		37,060		144,645		102,009	
Compressco	28,931		25,000		76,871		69,210	
Intersegment eliminations	(624)		&#8211		(624)		&#8211	
Total Production Enhancement Division	84,340		62,060		220,892		171,219	
Offshore Division								
Offshore Services	78,802		88,535		204,573		227,505	
Maritech	1,305		1,945		5,099		79,349	
Intersegment eliminations	(5,764)		(16,619)		(25,479)		(50,656)	
Total Offshore Division	74,343		73,861		184,193		256,198	
Corporate overhead	83		124		333		166	
Intersegment eliminations	(1)		(26)		(128)		(78)	
Consolidated	$ 233,986		$ 201,434		$ 649,691		$ 659,093	
Income (loss) before taxes and								
discontinued operations								
Fluids Division	$ 8,460		$ 5,127		$ 33,884		$ 23,921	
Production Enhancement Division								
Production Testing	11,114		9,603		27,961		24,674	
Compressco	6,356		3,875		14,511		11,689	
Total Production Enhancement Division	17,470		13,478		42,472		36,363	
Offshore Division								
Offshore Services	12,108		13,466		22,839		22,667	
Maritech	(9,231)		(15,605)		(19,938)		18,398	
Intersegment eliminations	&#8211		&#8211		&#8211		1,747	
Total Offshore Division	2,877		(2,139)		2,901		42,812	
Corporate overhead	(15,731)	(1)	(13,636)	(1)	(45,989)	(1)	(56,753)	(1)
Consolidated	$ 13,076		$ 2,830		$ 33,268		$ 46,343	

	September 30, 2012	September 30, 2011
	(In Thousands)	
Total assets		
Fluids Division	$ 367,925	$ 375,070
Production Enhancement Division		
Production Testing	343,916	112,636
Compressco	217,915	215,363
Total Production Enhancement Division	561,831	327,999
Offshore Division		
Offshore Services	243,724	239,601

Maritech		50,486				51,040		
Intersegment eliminations			–			(55)		
Total Offshore Division		294,210				290,586		
Corporate overhead		54,428		(2)		250,827		(2)
Consolidated	$	1,278,394			$	1,244,482		

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(In Thousands)			
General and administrative expense	$ 10,442	$ 8,314	$ 29,600	$ 26,964
Depreciation and amortization	855	752	2,588	2,166
Interest expense	4,155	4,219	12,391	12,713
Other general corporate (income) expense, net	279	351	1,410	14,910
Total	$ 15,731	$ 13,636	$ 45,989	$ 56,753