TETRA TECHNOLOGIES INC
Form 10-Q
November 09, 2007

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, 2007**

[ ] 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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

25025 Interstate 45 North, Suite 600

The Woodlands, Texas 77380

(Address of principal executive offices and zip code)

(281) 367-1983

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant has (1) 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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer [X] Accelerated filer [   ] Non-accelerated filer [   ]

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 1, 2007, there were 74,310,906 shares outstanding of the Company’s Common Stock, $.01 par value per share.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

TETRA Technologies, Inc. and Subsidiaries

Consolidated Statements of Operations

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues:				
Product sales	$ 106,085	$ 90,893	$ 344,532	$ 282,440
Services and rentals	136,996	125,858	404,341	292,686
Total revenues	243,081	216,751	748,873	575,126
Cost of revenues:				
Cost of product sales	65,784	45,283	212,892	146,011
Cost of services and rentals	98,844	77,045	277,092	176,316
Depreciation, depletion, amortization and accretion	41,229	22,082	101,139	58,125
Total cost of revenues	205,857	144,410	591,123	380,452
Gross profit	37,224	72,341	157,750	194,674
General and administrative expense	26,598	24,055	75,801	69,382
Operating income	10,626	48,286	81,949	125,292
Interest expense, net	4,305	3,503	12,514	9,221
Other (income) expense, net	742	(326)	(3,283)	(3,846)
Income before taxes and discontinued operations	5,579	45,109	72,718	119,917
Provision for income taxes	1,773	15,721	25,473	41,658
Income before discontinued operations	3,806	29,388	47,245	78,259
Income (loss) from discontinued operations, net of taxes	56	42	149	(87)
Net income	$ 3,862	$ 29,430	$ 47,394	$ 78,172
Basic net income per common share:				
Income before discontinued operations	$ 0.05	$ 0.41	$ 0.65	$ 1.09
Income (loss) from discontinued operations	0.00	0.00	0.00	(0.00)
Net income	$ 0.05	$ 0.41	$ 0.65	$ 1.09
Average shares outstanding	73,969	71,781	73,401	71,559
Diluted net income per common share:				
Income before discontinued operations	$ 0.05	$ 0.39	$ 0.62	$ 1.05
Income (loss) from discontinued operations	0.00	0.00	0.00	(0.00)
Net income	$ 0.05	$ 0.39	$ 0.62	$ 1.05
Average diluted shares outstanding	76,351	75,068	75,957	74,781

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,257	$ 5,535
Restricted cash	601	582
Accounts receivable, net of allowances for doubtful accounts of $7,780 in 2007 and $2,432 in 2006	246,882	243,352
Inventories	119,838	118,837
Deferred tax assets	4,148	4,438
Assets of discontinued operations	3,616	4,086
Prepaid expenses and other current assets	29,632	31,267
Total current assets	405,974	408,097
Property, plant and equipment:		
Land and building	20,872	19,539
Machinery and equipment	409,080	325,029
Automobiles and trucks	36,598	27,800
Chemical plants	45,872	48,332
Oil and gas producing assets	377,314	284,267
Construction in progress	29,852	40,308
	919,588	745,275
Less accumulated depreciation and depletion	(317,981)	(237,126)
Net property, plant and equipment	601,607	508,149
Other assets:		
Goodwill	131,407	125,961
Patents, trademarks and other intangible assets, net of accumulated amortization of $14,288 in 2007 and $11,335 in 2006	20,868	21,317
Other assets	22,548	22,666
Total other assets	174,823	169,944
	$ 1,182,404	$ 1,086,190

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	September 30, 2007 (Unaudited)	December 31, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 110,476	$ 78,859
Accrued liabilities	85,060	82,435
Liabilities of discontinued operations	272	464
Total current liabilities	195,808	161,758
Long-term debt, net	336,379	336,381
Deferred income taxes	48,118	51,243
Decommissioning liabilities, net	97,511	101,125
Other liabilities	18,903	15,303
Total long-term and other liabilities	500,911	504,052
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01 per share; 100,000,000 shares authorized; 75,811,453 shares issued at September 30, 2007 and 73,877,467 shares issued at December 31, 2006	758	739
Additional paid-in capital	172,714	147,178
Treasury stock, at cost; 1,530,330 shares held at September 30, 2007 and 1,946,039 shares held at December 31, 2006	(8,390)	(10,524)
Accumulated other comprehensive income (loss)	(4,845)	4,875
Retained earnings	325,448	278,112
Total stockholders' equity	485,685	420,380
	$ 1,182,404	$ 1,086,190

See Notes to Consolidated Financial Statements

TETRA Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2007	**2006**
Operating activities:		
Net income	$ 47,394	$ 78,172
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion, accretion and amortization	94,007	58,125
Oil and gas property impairments	5,433	
Dry hole costs	1,699	
Provision for deferred income taxes	4,595	8,143
Stock option expense	3,313	2,675
Provision for doubtful accounts and other non-cash charges and credits	7,151	(1,664)
Gain on sale of property, plant and equipment	(3,146)	(3,687)
Cost of compressor units sold	4,588	5,350
Excess tax benefit from exercise of stock options	(12,850)	(12,143)
Equity in (earnings) loss of unconsolidated subsidiary	(693)	(147)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(8,163)	(63,336)
Inventories	927	(35,649)
Prepaid expenses and other current assets	(4,057)	(4,243)
Trade accounts payable and accrued expenses	37,903	22,292
Decommissioning liabilities	(28,557)	(12,689)
Discontinued operations: non-cash charges and working capital changes	(1,043)	665
Other	304	(940)
Net cash provided by operating activities	148,805	40,924
Investing activities:		
Purchases of property, plant and equipment	(172,236)	(133,863)
Business combinations, net of cash acquired	(14,506)	(68,651)
Proceeds from sale of property, plant and equipment	2,781	2,297
Proceeds from insured replacement cost	7,131	
Change in restricted cash	(19)	(16)
Other investing activities	1,030	(696)
Investing activities of discontinued operations	1,413	(95)
Net cash used in investing activities	(174,406)	(201,024)
Financing activities:		
Proceeds from long-term debt obligations	34,079	273,993
Principal payments on long-term debt obligations	(38,087)	(138,310)
Proceeds from exercise of stock options	11,520	11,073
Excess tax benefit from exercise of stock options	12,850	12,143
Net cash provided by financing activities	20,362	158,899
Effect of exchange rate changes on cash	961	270
Increase (decrease) in cash and cash equivalents	(4,278)	(931)
Cash and cash equivalents at beginning of period	5,535	1,597
Cash and cash equivalents at end of period	$ 1,257	$ 666

Supplemental cash flow information:				
Interest paid	$	13,250	$	8,560
Income taxes paid		10,485		18,032
Supplemental disclosure of non-cash investing and financing activities:				
Oil and gas properties acquired through assumption of decommissioning liabilities	$		$	7,620
Adjustment of fair value of decommissioning liabilities capitalized to oil and gas properties	$	8,483	$	5,095

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

The consolidated financial statements include the accounts of TETRA Technologies, Inc. and its subsidiaries (the Company). Investments in unconsolidated joint ventures in which the Company participates are accounted for using the equity method. 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, 2006.

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. In addition, the accompanying unaudited consolidated financial statements retroactively reflect the effect of a 2-for-1 stock split effected in May 2006, and accordingly, all disclosures involving the number of shares of common stock outstanding and all per share amounts as of and for the periods ending prior to May 2006, retroactively reflect the impact of the stock split.

Statements of Cash Flows

For the purposes of the statements of cash flows, the Company considers all highly liquid cash investments, with a maturity of three months or less when purchased, to be cash equivalents.

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.

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 September 30,		**Nine Months Ended September 30,**	
	2007	**2006**	**2007**	**2006**
Number of weighted average common shares outstanding	73,968,544	71,781,441	73,400,784	71,558,600
Assumed exercise of stock options	2,382,521	3,286,591	2,556,653	3,222,829
Average diluted shares outstanding	76,351,065	75,068,032	75,957,437	74,781,429

In applying the treasury stock method to determine the dilutive effect of the stock options outstanding during the first nine months of 2007, the average market price of $24.49 was used. For the three months ended September 30, 2007, the average diluted shares outstanding excludes the impact of 575,816 average outstanding stock options that have exercise prices in excess of the average market price, as the inclusion of these shares would have been antidilutive.

Restricted Cash

Restricted cash reflected on the Company's balance sheets currently consists of funds related to a third party's proportionate obligation in the plugging and abandonment of a particular oil and gas property operated by the Company's Maritech Resources, Inc. (Maritech) subsidiary. This cash will remain restricted until such time as the associated plugging and abandonment project is completed, which is expected to occur during the next twelve months.

Hurricane Repair Expenses

The Company incurred damage to certain of its onshore and offshore operating equipment and facilities during the third quarter of 2005 as a result of Hurricanes Katrina and Rita. The hurricanes damaged or destroyed certain of the Company's fluids facilities, as well as certain of its decommissioning assets, including one of its heavy lift barges. The Company's Maritech subsidiary also suffered varying levels of damage to the majority of its offshore oil and gas producing platforms, and three of its platforms and one of its production facilities were completely destroyed. A majority of Company assets damaged during these hurricanes have been repaired and have resumed operation. With regard to the destroyed offshore platforms, well intervention efforts on a majority of the wells associated with two of the destroyed platforms have been performed, and the Company is continuing to assess the extent of well intervention work required on wells associated with the third platform. These well intervention efforts are being performed by the Company's WA&D Services segment. In addition, the Company is also continuing to assess the removal of debris costs associated with the destroyed platforms. Repair and well intervention costs incurred that are covered under the Company's insurance policies and probable of recovery are included in accounts receivable, net of reimbursements, allowances, and any associated intercompany profit. Such net insurance accounts receivable amounts, including other non-storm related insurance claims, totaled $26.9 million and $63.0 million as of September 30, 2007 and December 31, 2006, respectively.

Insurance claim proceeds in excess of destroyed asset carrying values and repair costs incurred are credited to earnings when received. During the nine months ended September 30, 2007, $1.4 million of insurance claim proceeds in excess of destroyed asset carrying values and repair costs were credited to earnings. Intercompany profit on repair work performed by the Company's WA&D Services segment is deferred until such time as insurance claim proceeds are received. The Company believes that all additional repair costs for these damaged assets in excess of applicable deductible amounts, up to the specific policy coverage limits, and included in net accounts receivable, will be reimbursed under its insurance policies. The coverage for certain well intervention costs incurred has been questioned by the insurance underwriters. The Company is pursuing the recovery of these questioned costs, however a portion of such costs has been charged to earnings during 2007. For further discussion, see Note I – Commitments and Contingencies.

The Company's Maritech subsidiary also incurred damage to one of its offshore platforms during 2004 as a result of Hurricane Ivan, which was further damaged in 2005 by Hurricane Katrina. The Company has received a $5.7 million insurance settlement payment for the full insured value for these property claims, less a deductible, resulting in a gain of $1.9 million during the second quarter of 2007.

Oil and Gas Property Impairments

The Company follows the successful efforts method of accounting for the oil and gas operations of its Maritech subsidiary. Under the successful efforts method, all capitalized costs of oil and gas properties are accumulated and recorded separately for each field, and are assessed for impairment in value whenever indicators become evident, with any impairment charged to expense. During the nine months ended September 30, 2007, the Company recorded $5.4 million of Maritech oil and gas property impairments. Approximately $4.6 million was recorded during the third quarter of 2007, in connection with the reduction of the net carrying value of a property following the decrease in production volumes for this property during the third quarter of 2007.

Gas Balancing

As part of its acquisitions of producing properties, Maritech has acquired gas balancing receivables and payables related to certain properties. Maritech allocates value for any acquired gas balancing positions using estimated amounts expected to be received or paid in the future. Amounts related to under-produced volume positions acquired are reflected as assets and amounts related to over-produced volume positions acquired are reflected as liabilities. At December 31, 2006 and September 30, 2007, the Company reflected a gas balancing receivable of $3.3 million and $2.8 million, respectively, in accounts receivable or other long-term assets, and a gas balancing payable of $6.9 million and $7.0 million, respectively, in accrued liabilities or other long-term liabilities. Maritech accounts for gas sales revenue from such properties based on its entitled share of total monthly production, with any monthly over- or under-production taken as an adjustment to the gas balancing receivable or payable, valued at the lower of the price in effect at time of production, current market price, or contract price, if applicable.

Environmental Liabilities

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

Complexities involving environmental remediation efforts can cause the estimates of the associated liability to be imprecise. Factors which 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.

New Accounting Pronouncements

In September 2006, the FASB published Statement of Financial Accounting Standard (SFAS) No. 157, “Fair Value Measurements,” which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on its financial position and results of operations.

In February 2007, the FASB published SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” which permits all entities to choose to elect to measure eligible financial instruments at fair value. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 159 will have on its financial position and results of operations.

NOTE B – DISCONTINUED OPERATIONS

During the fourth quarter of 2006, the Company made the decision to discontinue its fluids and production testing operations in Venezuela due to several factors, including the country's changing political climate. The Company's Venezuelan fluids operation was previously part of its Fluids Division and the production testing operation was previously part of its Production Enhancement Division. The majority of the Venezuelan property assets have been sold or transferred to other market locations, and these closure efforts are expected to continue during the remainder of 2007.

The Company has accounted for its Venezuelan fluids and production testing businesses as discontinued operations, and has reclassified prior period financial statements to exclude these businesses from continuing operations. A summary of financial information related to the Company's discontinued operations for each of the periods presented is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In Thousands)			
Revenues	$ 38	$ 1,013	$ 608	$ 2,925
Income before taxes	$ 104	$ 31	$ 301*(1)*	$ 16
Income tax provision (benefit)	48	(11)	152	103
Income (loss) from discontinued operations, net of taxes	$ 56	$ 42	$ 149*(2)*	$ (87)

(1) Amounts reflected include $126,000 associated with the Company's micronutrients business.

(2) Amounts reflected include $82,000 associated with the Company's micronutrients business.

Assets and liabilities of discontinued operations related to the Venezuelan fluids and production testing businesses consist of the following as of September 30, 2007 and December 31, 2006:

	September 30, 2007	December 31, 2006
	(In Thousands)	
Current assets	$ 3,561	$ 2,503
Property, plant and equipment, net	55	1,583
Total assets	$ 3,616	$ 4,086
Current liabilities	$ 272	$ 464
Total liabilities	$ 272	$ 464

Current assets of discontinued operations as of September 30, 2007 include cash maintained in local currency on deposit in Venezuelan banks, and having an equivalent value of approximately $2.5 million. Such cash may be subject to a discount upon conversion to U.S. dollars prior to being transferred out of Venezuela.

NOTE C – ACQUISITIONS AND DISPOSITIONS

In April 2007, the Company acquired certain assets and the operations of a company that provides fluids transfer and related services in support of high pressure fracturing processes. The acquisition expands the Fluids Division's existing water transfer and related services business by providing such services to customers in the Arkansas, TexOma, and ArkLaTex regions. As consideration for the acquired assets, the Company paid approximately $8.5 million of cash at closing, with up to an additional $2.5 million to be paid over the next two years, depending on the level of revenues generated by the acquired assets. The Company allocated the purchase price of this acquisition to the fair value of the assets and liabilities acquired, which consisted of approximately $0.2 million of inventory, $5.5 million of property, plant and equipment; $1.4 million of certain intangible assets; and $1.3 million of goodwill. Intangible assets, other than goodwill, are amortized over their useful lives ranging from five to six years.

This acquisition has been accounted for as a purchase, and the operations of the acquired business have been included in the accompanying consolidated financial statements from the date of acquisition.

In September 2007, the Company acquired the assets and operations of EOT Rentals, LLC (EOT), a business which provides onshore and offshore cutting services and equipment rentals and services. The acquisition of EOT is a strategic expansion of the WA&D Services segment which, in the past, has contracted cutting services from third parties, including EOT, in order to provide such services to its customers. As consideration for the acquired assets, the Company paid approximately $6.1 million of cash at closing, subject to adjustment, with an additional $1.0 million to be paid at prescribed dates over the next two years. The Company allocated the purchase price of this acquisition to the preliminary estimate of fair value of the assets and liabilities acquired, which consisted of approximately $0.7 million of net working capital, approximately $2.8 million of property, plant and equipment; $0.9 million of certain intangible assets; and $2.5 million of goodwill. Adjustments to be made to this preliminary allocation of fair value are not expected to be material. Intangible assets, other than goodwill, are amortized over their useful lives ranging from five to six years. This acquisition has been accounted for as a purchase, and the operations of the acquired business will be included in the consolidated financial statements from the date of acquisition.

During the first nine months of 2007, Maritech entered into five separate transactions in which it sold interests in certain oil and gas properties and assets. As a result of these transactions, the buyers of these properties assumed an aggregate of approximately $4.0 million of Maritech’s associated decommissioning liabilities. Maritech paid total cash at closing of approximately $1.0 million in these transactions, will receive $0.5 million of cash on or before December 31, 2007, and recognized gains totaling approximately $2.4 million. The amount of oil and gas reserve volumes associated with the sold properties was immaterial.

In September 2007, the Company entered into a non-binding letter of intent to sell certain non-core assets for cash. The disposal is subject to the execution of a definitive purchase and sale agreement and customary conditions. The transaction is expected to occur during the fourth quarter of 2007.

For additional discussion of acquisitions, see Note K – Subsequent Events.

NOTE D – LONG-TERM DEBT AND OTHER BORROWINGS

Long-term debt consists of the following:

	September 30, 2007		December 31, 2006	
		(In Thousands)		
Bank revolving line of credit facility	$	151,417	$	154,242
5.07% Senior Notes, Series 2004-A		55,000		55,000
4.79% Senior Notes, Series 2004-B		39,962		36,969
5.90% Senior Notes, Series 2006-A		90,000		90,000
European Credit Facility				
Vehicle loans				337
		336,379		336,548
Less current portion				167
Total long-term debt	$	336,379	$	336,381

During the first quarter of 2007, the Company entered into a bank line of credit facility covering the day to day working capital needs of certain of its European operations (the European Credit Facility). The European Credit Facility provides available borrowing capacity of up to 5 million Euros (approximately $7.1 million as of September 30, 2007), with interest computed on any outstanding borrowings at a rate equal to the lender’s Basis Rate plus 0.75%. The European Credit Facility agreement is cancellable by either party with 14 business days notice, and contains standard provisions in the event of default. As of September 30, 2007, the Company had no borrowings pursuant to the European Credit Facility.

NOTE E – ASSET RETIREMENT OBLIGATIONS

The Company accounts for asset retirement obligations by estimating the fair value of retirement costs of long-lived assets and capitalizing them as part of the carrying amount of the applicable asset. The Company, through Maritech, owns interests in certain offshore oil and gas producing properties in the Gulf of Mexico. In addition, the Company operates facilities in various U.S. and foreign locations in the manufacture, storage, and sale of its products, inventories, and equipment, and the provision of its services. These facilities are a combination of owned and leased assets. The estimated cost to plug and abandon Maritech's oil and gas properties and decommission its offshore production platforms and facilities is classified as decommissioning liabilities in the accompanying consolidated balance sheets and is recorded net of amounts allocable to joint interest owners and any contractual amounts to be paid by the previous owners of the properties when the liabilities are satisfied. The estimated cost of asset retirement obligations for the Company's non-oil and gas property assets is classified within other long-term liabilities in the accompanying consolidated balance sheets. The current portion of asset retirement obligations is included in current liabilities.

The changes in total asset retirement obligations during the three and nine month periods ended September 30, 2007 and 2006 are as follows:

	Three Months Ended September 30,			
	2007		2006	
	(In Thousands)			
Beginning balance for the period, as reported	$	122,181	$	137,759
Activity in the period:				
Accretion of liability		1,666		1,725
Retirement obligations incurred		2,445		
Revisions in estimated cash flows		10,590		10,482
Settlement of retirement obligations		(15,770)		(8,435)
Ending balance as of September 30	$	121,112	$	141,531

	Nine Months Ended September 30,			
	2007		2006	
	(In Thousands)			
Beginning balance for the period, as reported	$	138,340	$	136,843
Activity in the period:				
Accretion of liability		5,439		5,230
Retirement obligations incurred		2,445		3,640
Revisions in estimated cash flows		13,872		10,915
Settlement of retirement obligations		(38,984)		(15,097)
Ending balance as of September 30	$	121,112	$	141,531

NOTE F – HEDGE CONTRACTS

The Company has market risk exposure in the sales prices it receives for its oil and gas production, and currency exchange rate risk exposure related to specific transactions denominated in a foreign currency as well as investments in certain of its international operations. The Company's financial risk management activities involve, among other measures, the use of derivative financial instruments, such as swap and collar agreements, to hedge the impact of market price risk exposures for a significant portion of its oil and gas production and for certain foreign currency transactions. The Company is exposed to the volatility of oil and gas prices for the portion of its oil and gas production that is not hedged.

The Company believes that its swap agreements are "highly effective cash flow hedges," as defined by SFAS No. 133, in managing the volatility of future cash flows associated with its oil and gas 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) is initially reported as a component of accumulated other comprehensive income (loss) and will be subsequently reclassified into product sales revenues over the term of the hedge contracts, utilizing the specific identification method, when the hedged exposure affects earnings (i.e., when hedged oil and gas production volumes are reflected in revenues). Any “ineffective” portion of the change in the derivative’s fair value is recognized in earnings immediately. The fair value of the asset for the outstanding cash flow hedge natural gas swap contracts at September 30, 2007 was approximately $1.8 million, which is included as prepaid expenses and other current assets in the accompanying consolidated balance sheet. The fair value of the liability for the outstanding cash flow hedge oil swap contracts at September 30, 2007 was approximately $19.1 million, which is included as accrued liabilities in the accompanying consolidated balance sheet. As the hedge contracts were highly effective, losses of $10.9 million from changes in contract fair value, net of taxes, as of September 30, 2007, are included in other comprehensive income (loss) within stockholders’ equity. For the three month period ended September 30, 2007, the Company recorded losses of approximately $0.2 million for the ineffective portion of the change in the derivatives’ fair value related to the oil and gas swap contracts and has reclassified such losses within other (income) expense in the accompanying consolidated statements of operations.

The Company’s long-term debt includes borrowings which are designated as a hedge of the Company’s net investment in its TCE European calcium chloride operation. The hedge is considered to be effective since the debt balance designated as the hedge is less than or equal to the net investment in the foreign operation. At September 30, 2007, the Company had 36 million Euros (approximately $51.4 million) designated as a hedge of a net investment in this foreign operation. Changes in the foreign currency exchange rate have resulted in a cumulative change to the cumulative translation adjustment account of $4.5 million, net of taxes, at September 30, 2007.

NOTE G – COMPREHENSIVE INCOME

Comprehensive income for the three and nine month periods ended September 30, 2007 and 2006 is as follows:

	Three Months Ended September 30,	
	2007	2006
	(In Thousands)	
Net income	$ 3,862	$ 29,430
Net change in derivative fair value, net of taxes of $(3,154) and $4,183, respectively	(5,323)	7,061
Reclassification of derivative fair value into earnings, net of taxes of $(751) and $770, respectively	(1,268)	1,301
Foreign currency translation adjustment, net of taxes of $728 and $157, respectively	2,578	359
Comprehensive income	$ (151)	$ 38,151

	Nine Months Ended September 30,	
	2007	2006
	(In Thousands)	
Net income	$ 47,394	$ 78,172
Net change in derivative fair value, net of taxes of $(8,138) and $2,648, respectively	(13,736)	4,471
Reclassification of derivative fair value into earnings, net of taxes of $(5) and $(868), respectively	(9)	(1,467)
Foreign currency translation adjustment, net of taxes of $852 and $891, respectively	4,025	1,999
Comprehensive income	$ 37,674	$ 83,175

NOTE H – INCOME TAXES

The Company and certain of its subsidiaries file U.S. federal, state, and foreign income tax returns. The Company believes it has justification for the tax positions utilized in the various tax returns it files. With few exceptions, the Company is no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for years prior to 2002.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN No. 48), on January 1, 2007. FIN No. 48 provides guidance on measurement and recognition in accounting for income tax uncertainties and provides related guidance on derecognition, classification, disclosure, interest, and penalties. As a result of the implementation of FIN No. 48, the Company recognized approximately a $0.1 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

As of January 1, 2007, the Company had a gross amount of $4.7 million of unrecognized tax benefits, of which $2.4 million would affect the effective tax rate if recognized. Included in this amount as of January 1, 2007 is $2.2 million of accrued potential interest and penalties associated with these uncertain tax positions. The amount of expected decreases of unrecognized tax benefits over the next twelve month period is not material. The Company records any accrued penalties and interest related to unrecognized tax benefits in income tax expense, and such amounts were not material during the nine months ended September 30, 2007.

NOTE I – COMMITMENTS AND CONTINGENCIES

Litigation – The Company and its subsidiaries are named as 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 the Company cannot be predicted with certainty, management does not expect these matters to have a material adverse impact on the financial statements.

Environmental – A subsidiary of the Company, 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 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. The Company has reviewed estimated remediation costs prepared by its independent, third party environmental engineering consultant, based on a detailed environmental study. The estimated remediation costs range from $0.6 million to $1.4 million. Based upon its review and discussions with its third party consultants, the Company established a reserve for such remediation costs which is included in other long-term liabilities in the accompanying consolidated balance sheets. As of September 30, 2007, and following the performance of certain remediation activities at the site, the amount included in long-term liabilities is approximately $0.3 million. The reserve will be further adjusted as information develops or conditions change.

The Company has not been named a potentially responsible party by the EPA or any state environmental agency.

Other Contingencies – As a result of Hurricanes Katrina and Rita in 2005, the Company estimates that it will incur approximately $164 to $188 million of total storm related costs, of which approximately $129.3 had been expended as of September 30, 2007. The Company has received claim proceeds of approximately $94.3 million pursuant to its various insurance policies covering this damage. Approximately $72 to $96 million of the storm related costs consists of well intervention, debris removal, and other costs related to the three destroyed Maritech offshore platforms. The estimate of well intervention costs exceeds the maximum coverage amount for such costs provided pursuant to the Company's applicable insurance policies. During the last half of 2006, the Company's insurance claims adjuster advised that the underwriters did not yet have sufficient information to conclude that well intervention costs for certain of the damaged wells would qualify as covered costs. In addition, the underwriters have questioned whether certain well intervention costs for qualifying wells would be covered under the policy. The Company is continuing to have discussions with its insurance adjuster and

underwriters regarding these well intervention activities, and it continues to submit any documentation requested for the costs of these activities to the insurance adjusters, in an effort to obtain reimbursement for these costs. During the second quarter of 2007, after reviewing additional documentation provided by the Company, the underwriters repeated their position that certain wells did not qualify for coverage and that certain well intervention costs for covered wells do not qualify as covered costs. Based on this position from underwriters, the Company increased its allowance for uncollectible insurance receivable and charged approximately $1.6 million to expense, net of intercompany profit, during the second quarter of 2007 for a portion of these questioned costs. As of September 30, 2007, approximately $46.7 million of well intervention costs had been expended and approximately $3.9 million of such costs remain in accounts receivable and are considered probable of recovery under the Company's insurance policy. The Company continues to maintain and present its position to the underwriters that all well intervention costs being questioned qualify for reimbursement under its insurance policies. To the extent that amounts in excess of the Company's net insurance receivable are reimbursed to the Company in a future period, such amounts will be included in income in that period.

The Company has received from underwriters the advance payment of an amount equal to the policy limit for removal of debris associated with the three destroyed platforms. In August 2006, the underwriters restated their position that there is no additional coverage provided under an endorsement obtained by the Company in August 2005 for the cost of removal of these platforms or for other damage repairs on certain properties in excess of the insured values provided by the Company's property damage policy. The endorsement provides additional coverage for debris removal and other costs up to a maximum limit of $20 million per storm. While the Company has yet to incur costs for removal of the destroyed platforms, total costs which the Company believes are recoverable under the endorsement relating to one of the storms could equal or exceed the policy maximum limits under the endorsement. The Company continues to provide additional requested documentation to the underwriters' claims adjusters and the underwriters to support the coverage under this endorsement, but has not yet received underwriters' agreement to its position. While the Company believes that these debris removal and other costs qualify for reimbursement under the endorsement, it is possible that all or a portion of these costs may not be reimbursed.

During the second quarter of 2007, the insurance adjuster identified approximately $3.3 million of certain repair related costs incurred by Maritech and included in accounts receivable that it claims are not covered under Maritech's property damage insurance policy. Maritech has included these amounts in the claim presented to the underwriters, as it believes, based on the terms of the policy and historical experience, that these amounts are covered under the insurance policy. The Company has yet to receive the underwriters' position with regard to these costs. The Company believes the adjuster's position with regard to this claim is without merit, and is pursuing reimbursement of these repair related costs.

In October 2005, one of the Company's drilling rig barges was damaged by a fire, and a claim was submitted pursuant to the Company's insurance coverage. The drilling rig barge was repaired during 2006 and is now operational. As of September 30, 2007, approximately $5.7 million is included in the Company's accounts receivable associated with the repair costs incurred for this asset, as such costs are considered probable of being reimbursed pursuant to the Company's applicable insurance policy. This amount is net of approximately $2.1 million of insurance reimbursements, which were collected in January 2007, and approximately $0.8 million of costs which were charged to expense during the third quarter of 2007. In February 2007, the Company received a notice from its insurance underwriters, stating that they consider that approximately $3.7 million of this claim is not covered under the applicable policy. In August 2007, the underwriters responded to the Company's position regarding this claim, requested additional information on a portion of the remaining costs incurred, and agreed to continue discussions. The Company has reviewed the underwriters' position with regard to this claim, and believes it is without merit. In September 2007, the Company met with underwriters to discuss the claim, delivered the additional requested information, and is awaiting any further questions. The Company continues to work with the underwriters to pursue reimbursement of its repair costs.

In March 2006, the Company acquired Beacon Resources, LLC (Beacon), a production testing operation, for approximately $15.6 million paid at closing. In addition, the acquisition provides for additional contingent consideration of up to $19.1 million to be paid in March 2009, depending on the average of Beacon's annual pretax results of operations over the three year period following the closing date through March 2009. Any amount payable pursuant to this contingent consideration provision will be reflected as a liability as it becomes fixed and determinable at the end of the three year period.

NOTE J – INDUSTRY SEGMENTS

The Company manages its operations through four operating segments: Fluids, WA&D Services, Maritech, and Production Enhancement.

The Company's Fluids Division manufactures and markets clear brine fluids, additives, and other associated products and services to the oil and gas industry for use in well drilling, completion, and workover operations both domestically and in certain regions of Europe, Asia (including the Middle East), Latin America, and Africa. The Division also markets certain fluids and dry calcium chloride manufactured at its production facilities to a variety of markets outside the energy industry.

The Company's WA&D Division consists of two operating segments: WA&D Services and Maritech. The WA&D Services segment provides a broad array of services required for the abandonment of depleted oil and gas wells and the decommissioning of platforms, pipelines, and other associated equipment. The WA&D Services segment also provides diving, marine, engineering, cutting, electric wireline, tool rental, workover, and drilling services. The WA&D Services segment operates primarily in the onshore U.S. Gulf Coast region and the inland waters and offshore markets of the Gulf of Mexico.

The Maritech segment consists of the Company's Maritech subsidiary, which, with its subsidiaries, is a producer of oil and gas from properties acquired primarily to support and provide a baseload of business for the WA&D Services segment. In addition, the segment conducts development and exploitation operations on certain of its oil and gas properties, which are intended to increase the cash flows on such properties prior to their ultimate abandonment.

The Company's Production Enhancement Division provides production testing services to the Texas, New Mexico, Louisiana, offshore Gulf of Mexico, and certain international markets. In addition, it designs, fabricates, and services wellhead compression equipment, which is primarily used to provide compression services to enhance production from mature, low-pressure natural gas wells, which are located principally in the mid-continent, mid-western, western, Rocky Mountain, and Gulf Coast regions of the United States, as well as in western Canada and Mexico. The Division also provides the technology and services required for the separation and recycling of oily residuals generated from petroleum refining operations.

The Company generally evaluates performance and allocates resources based on profit or loss from operations before income taxes and nonrecurring charges, return on investment, and other criteria. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Transfers between segments, as well as geographic areas, are priced at the estimated fair value of the products or services as negotiated between the operating units. "Corporate Overhead" includes corporate general and administrative expenses, 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 September 30,		**Nine Months Ended September 30,**	
	2007	**2006**	**2007**	**2006**
	(In Thousands)			
Revenues from external customers				
Product sales				
Fluids Division	$ 44,095	$ 45,756	$ 174,629	$ 155,779
WA&D Division				
WA&D Services	856	847	3,564	2,700
Maritech	56,941	41,742	157,305	114,860
Intersegment eliminations				
Total WA&D Division	57,797	42,589	160,869	117,560
Production Enhancement Division	4,193	2,548	9,034	9,101
Consolidated	106,085	90,893	344,532	282,440

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In Thousands)			
Revenues from external customers				
Services and Rentals				
Fluids Division	$ 15,302	$ 10,277	$ 38,343	$ 24,991
WA&D Division				
WA&D Services	86,230	95,035	258,571	198,781
Maritech	224	391	544	3,179
Intersegment eliminations	(10,275)	(16,653)	(23,187)	(34,659)
Total WA&D Division	76,179	78,773	235,928	167,301
Production Enhancement Division	45,515	36,808	130,070	100,394
Consolidated	136,996	125,858	404,341	292,686
Intersegment revenues				
Fluids Division	1,272	239	1,475	345
WA&D Division				
WA&D Services				
Maritech				
Intersegment eliminations				
Total WA&D Division				
Production Enhancement Division	59	30	109	156
Intersegment eliminations	(1,331)	(269)	(1,584)	(501)
Consolidated				
Total revenues				
Fluids Division	60,669	56,272	214,447	181,115
WA&D Division				
WA&D Services	87,086	95,882	262,135	201,481
Maritech	57,165	42,133	157,849	118,039
Intersegment eliminations	(10,275)	(16,653)	(23,187)	(34,659)
Total WA&D Division	133,976	121,362	396,797	284,861
Production Enhancement Division	49,767	39,386	139,213	109,651
Intersegment eliminations	(1,331)	(269)	(1,584)	(501)
Consolidated	$ 243,081	$ 216,751	$ 748,873	$ 575,126

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In Thousands)			
Income before taxes and discontinued operations				
Fluids Division	$ 319	$ 15,735	$ 18,531	$ 47,495
WA&D Division				
WA&D Services	2,743	19,079	26,459	37,060
Maritech	1,668	12,004	21,357	41,142
Intersegment eliminations	74	(1,939)	3,977	(4,712)
Total WA&D Division	4,485	29,144	51,793	73,490
Production Enhancement Division	14,768	12,023	39,914	32,889
Corporate overhead	(13,993) *(1)*	(11,793) *(1)*	(37,520) *(1)*	(33,957) *(1)*
Consolidated	$ 5,579	$ 45,109	$ 72,718	$ 119,917

	September 30,	
	2007	2006
	(In Thousands)	
Total assets		
Fluids Division	$ 283,784	$ 245,996
WA&D Division		
WA&D Services	283,089	246,690
Maritech	305,686	267,608
Intersegment eliminations	(4,366)	(9,266)
Total WA&D Division	584,409	505,032
Production Enhancement Division	275,673	234,619
Corporate overhead	38,538 *(2)*	35,737 *(2)*
Consolidated	$ 1,182,404	$ 1,021,384

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In Thousands)			
General and administrative expense	$ 8,924	$ 8,138	$ 23,539	$ 23,782
Depreciation and amortization	309	273	866	722
Interest expense	4,429	3,537	12,900	9,383
Other general corporate (income) expense, net	331	(155)	215	70
Total	$ 13,993	$ 11,793	$ 37,520	$ 33,957

(2) Includes assets of discontinued operations.

NOTE K – SUBSEQUENT EVENTS

In October 2007, the Company's Maritech subsidiary signed non-binding letters of intent to acquire additional oil and gas properties in two separate transactions. The properties, consisting of producing fields as well as unproved prospects, are located offshore in the Gulf of Mexico and would add to Maritech's existing oil and gas reserves. Both acquisitions are subject to the execution of definitive purchase and sale agreements and other customary closing conditions. The transactions are expected to close during the fourth quarter of 2007 and to be funded from the Company's existing borrowing capacity under its revolving line of credit facility and, potentially, with proceeds from an anticipated sale of certain non-core assets.

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

Business Overview

Although the Company once again reported quarterly revenues significantly higher than the corresponding prior year period, quarterly results of operations were lower than the prior year period for the second consecutive quarter. Third quarter 2007 net income decreased to $3.9 million, a decrease of 86.9% from the record earnings in the third quarter of 2006. Many of the Company's businesses were again plagued by issues that also affected the prior quarter of 2007, including weather disruptions, higher fluids inventory costs, service contract issues, and vessel inefficiencies due to mechanical issues. The Fluids Division was also affected by decreased demand in the Gulf of Mexico. In addition, the Company's Maritech Resources, Inc. (Maritech) subsidiary recorded impairments on certain oil and gas properties during the quarter. Consolidated gross profit as a percentage of revenue dropped to 15.3% during the third quarter of 2007 compared to 33.4% during the prior year quarter. The profitability levels of the Company's core businesses are expected to recover beginning in early 2008. The Fluids Division continues to transition to a lower cost supply, which should improve profitability in future periods. The Company's WA&D Services segment also continues to adjust its operations to serve the current demand levels more efficiently, right-sizing and upgrading its fleet, operating under newer, more favorable contract terms, and modifying its approach to servicing the post-hurricane market. Maritech revenues achieved a record level during the quarter on the strength of increased production volumes and product pricing,

although profitability was negatively affected by property impairments, increased abandonment and decommissioning costs, and increased depletion expenses for many of its producing properties. The Production Enhancement Division continues to exceed prior year profitability levels. This growth is expected to continue, given the continuing high demand for the Division's production testing and wellhead compression services, both domestically and internationally. The growth of the Company's operations, as well as the borrowings necessary to fund its capital expenditure program, has resulted in increased administrative and interest expenses compared to the prior year, and such comparative increases are expected to continue in the future as the Company continues to grow.

The Company's consolidated balance sheet as of September 30, 2007 included current assets of $406.0 million and total assets of $1.2 billion. The Company's long-term debt balance decreased slightly during the first nine months of 2007 to an outstanding balance of $336.4 million as of September 30, 2007, as net principal payments of $4.0 million during the first nine months of 2007 were offset by the impact of currency exchange fluctuation for the Euro-denominated debt. As of November 9, 2007, the Company had available borrowing capacity of approximately $103.1 million. During the first nine months of 2007, the Company generated operating cash flow of $148.8 million. The Company plans to utilize its operating cash flow and its available borrowing capacity to fund its growth, including its capital expenditure program and acquisition opportunities. Specific areas of planned ongoing capital expenditure investment include the further exploitation, development, and acquisition of Maritech oil and gas properties, the continued growth of the Company's fleet of wellhead compression equipment, and a multi-year Fluids Division development project to construct a new calcium chloride plant and expand an existing brominated fluids production facility. In addition to these internal growth projects, the Company's growth strategy also includes identifying opportunities to establish operations in additional niche oil and gas service markets, including international business development opportunities, and considering suitable acquisition opportunities. In October 2007, Maritech entered into non-binding letters of intent to acquire additional oil and gas properties for cash in two separate transactions. If consummated under their current terms, these transactions would require utilization of a significant percentage of the Company's remaining borrowing capacity under its revolving credit facility. Cash to fund a portion of the consideration required pursuant to these acquisitions may also be provided by a sale of certain non-core assets, which the Company expects to consummate during the fourth quarter of 2007, in which event the Company will not be required to utilize as much of its available borrowing capacity.

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 the Company's Critical Accounting Policies and Estimates disclosed in its Form 10-K for the year ended December 31, 2006. In preparing its consolidated financial statements, the Company makes assumptions, estimates, and judgments that affect the amounts reported. The Company periodically evaluates its estimates and judgments, including those related to potential impairments of long-lived assets (including goodwill), the collectibility of accounts receivable, and the current cost of future abandonment and decommissioning obligations. The Company's judgments and estimates are based on historical experience and on future expectations that are believed to be reasonable. 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 with changes in the Company's operating environment. Actual results are likely to differ from the Company's current estimates, and those differences may be material.

Results of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In Thousands)			
Revenues				
Fluids Division	$ 60,669	$ 56,272	$ 214,447	$ 181,115
WA&D Division				
WA&D Services	87,086	95,882	262,135	201,481
Maritech	57,165	42,133	157,849	118,039
Intersegment eliminations	(10,275)	(16,653)	(23,187)	(34,659)
Total WA&D Division	133,976	121,362	396,797	284,861
Production Enhancement Division	49,767	39,386	139,213	109,651
Intersegment eliminations	(1,331)	(269)	(1,584)	(501)
	243,081	216,751	748,873	575,126
Gross profit				
Fluids Division	7,437	22,177	39,212	65,178
WA&D Division				
WA&D Services	6,889	22,143	37,962	46,458
Maritech	3,465	14,523	23,967	44,525
Intersegment eliminations	74	(1,939)	3,977	(4,712)
Total WA&D Division	10,428	34,727	65,906	86,271