

TETRA TECHNOLOGIES INC
Form 10-Q
November 09, 2010

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-13455

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

Delaware
(State of incorporation)

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

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

77380
(zip code)

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

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

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

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

Diluted net income per common
share:

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

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

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

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

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

See Notes to Consolidated Financial Statements

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

NOTE A – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

We are a geographically diversified oil and gas services company focused on completion fluids and other products, production testing, wellhead compression, and selected offshore services including well plugging and abandonment, decommissioning, and diving, with a concentrated domestic exploration and production business. Unless the context requires otherwise, when we refer to “we,” “us,” and “our,” we are describing TETRA Technologies, Inc. and its consolidated subsidiaries on a consolidated basis.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission (SEC) and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished reflects all normal recurring adjustments, which are, in the opinion of management, necessary to provide a fair statement of the results for the interim periods. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2009.

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

Cash Equivalents

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

Restricted Cash

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

Inventories

Inventories are stated at the lower of cost or market value and consist primarily of finished goods. Cost is determined using the weighted average method. Significant components of inventories as of September 30, 2010, and December 31, 2009, are as follows:

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

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

Repair Costs and Insurance Recoveries

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

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

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

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

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

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Activity in the period:

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

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

Net Income per Share

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

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

For the three month periods ended September 30, 2010 and 2009, the calculations of the average diluted shares outstanding excludes the impact of 2,668,312 and 2,754,253 outstanding stock options, respectively, that have exercise prices in excess of the average market price, as the inclusion of these shares would have been antidilutive. For the nine month periods ended September 30, 2010 and 2009, the calculations of the average diluted shares outstanding exclude the impact of 2,311,805 and 3,531,826 outstanding stock options, respectively, that have exercise prices in excess of the average market price, as the inclusion of these shares would have been antidilutive.

Environmental Liabilities

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

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

Fair Value Measurements

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

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

We utilize fair value measurements to account for certain items and account balances within our consolidated financial statements. Fair value measurements are utilized in the allocation of purchase consideration for acquisition transactions to the assets and liabilities acquired, including intangible assets and goodwill. In addition, we utilize fair value measurements in the initial recording of our decommissioning and other asset retirement obligations. Fair value measurements may also be utilized on a nonrecurring basis, such as for the impairment of long-lived assets, including goodwill. The fair value of our financial instruments, which may include cash, temporary investments, accounts receivable, short-term borrowings, and long-term debt pursuant to our bank credit agreement, approximate their carrying amounts. The fair value of our long-term Senior Notes at September 30, 2010, was approximately \$332.9 million compared to a carrying amount of approximately \$308.1 million, as current rates are more favorable than the Senior Note interest rates. We calculate the fair value of our Senior Notes internally, using current market conditions and average cost of debt. We have not calculated or disclosed recurring fair value measurements of non-financial assets and non-financial liabilities.

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

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

	Total as of December 31,	Fair Value Measurements as of December 31, 2009 Using		
		Quoted Prices in Active Markets	Significant	
		for Identical Assets or Liabilities	Other Observable Inputs	Significant Unobservable Inputs

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

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

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

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

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

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

New Accounting Pronouncements

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

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

NOTE B – ACQUISITION

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

NOTE C – LONG-TERM DEBT AND OTHER BORROWINGS

Long-term debt consists of the following:

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

In September 2010, we entered into an agreement whereby we expect to issue, and sell through a private placement, \$65.0 million in aggregate principal amount of Series 2010-A Senior Notes and \$25.0 million in aggregate principal amount of Series 2010-B Senior Notes (collectively, the “2010 Senior Notes”) pursuant to a Master Note Purchase Agreement dated September 30, 2010. The 2010 Senior Notes are to be sold in the United States to accredited investors pursuant to an exemption from the Securities Act of 1933. Closing of the issuance and sale of the 2010 Senior Notes and funding of the proceeds from the 2010 Senior Notes is scheduled to occur on December 15, 2010 upon satisfaction of certain conditions, and the proceeds are expected to be used to repay the 2004 Senior Notes at or prior to their maturity in September 2011.

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

5.67% and mature on December 15, 2020. Interest on the 2010 Senior Notes will be due semiannually on June 15 and December 15 of each year. The terms of all of our Senior Notes (including the 2010 Senior Notes) are similar. We may prepay the Senior Notes, in whole or in part, at any time at a price equal to 100% of the principal amount outstanding, plus accrued and unpaid interest and a “make-whole” prepayment premium. The Senior Notes are unsecured and are guaranteed by substantially all of our wholly-owned U.S. subsidiaries. The agreements governing all of our Senior Notes, including the Master Note Purchase Agreement dated September 30, 2010 (collectively Senior Note Purchase Agreements), contain customary covenants and restrictions and require us to maintain certain financial ratios, including a minimum level of net worth and a ratio between our long-term debt balance and a defined measure of operating cash flow over a twelve month period. The Senior Note Purchase Agreements also contain customary default provisions as well as a cross-default provision relating to any other of our indebtedness of \$20 million or more. We are in compliance with all covenants and conditions of our Senior Note Purchase Agreements as of September 30, 2010. Upon the occurrence and during the continuation of an event of default under the Senior Note Purchase Agreements, the Senior Notes may become immediately due and payable, either automatically or by declaration of holders of more than 50% in principal amount of the Senior Notes outstanding at the time.

In October 2010, we amended our existing bank revolving credit facility agreement with a syndication of banks whereby the credit facility was decreased from \$300 million to \$278 million and its scheduled maturity was extended from June 2011 to October 2015. In addition, the amended credit facility agreement allows us to increase the facility by \$150 million up to a \$428 million limit upon the

agreement of the lenders and the satisfaction of certain conditions. As of November 9, 2010, we have no outstanding balance under the amended credit facility. The amended credit facility remains unsecured and is guaranteed by certain of our domestic subsidiaries. Under the amended terms, borrowings generally bear interest at LIBOR plus 1.5% to 2.5%, depending on a certain financial ratio, and we will pay a commitment fee on unused portions of the facility at a rate of 0.225% to 0.500%, also depending on this financial ratio.

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

NOTE D – DECOMMISSIONING AND OTHER ASSET RETIREMENT OBLIGATIONS

The large majority of our asset retirement obligations consists of the future well abandonment and decommissioning costs for offshore oil and gas properties and platforms owned by our Maritech subsidiary, including the remaining well intervention, abandonment, decommissioning, and debris removal costs associated with offshore platforms that were previously destroyed by hurricanes. The amount of decommissioning liabilities recorded by Maritech is reduced by amounts allocable to joint interest owners, anticipated insurance recoveries, and any contractual amount to be paid by the previous owner of the oil and gas property when the liabilities are satisfied.

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

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

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

NOTE E – HEDGE CONTRACTS

We are exposed to financial and market risks that affect our businesses. We have market risk exposure in the sales prices we receive for our oil and gas production. We have currency exchange rate risk exposure related to specific transactions denominated in a foreign currency as well as to investments in certain of our international operations. As a result of our variable rate bank credit facility, to the extent

we have debt outstanding, we face market risk exposure related to changes in applicable interest rates. We have concentrations of credit risk as a result of trade receivables from companies in the energy industry. Our financial risk management activities involve, among other measures, the use of derivative financial instruments, such as swap and collar agreements, to hedge the impact of market price risk exposures for a significant portion of our oil and gas production and for certain foreign currency transactions. We are exposed to the volatility of oil and gas prices for the portion of our oil and gas production that is not hedged. We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives, our strategies for undertaking various hedge transactions, and our methods for assessing and testing correlation and hedge ineffectiveness. All hedging instruments are linked to the hedged asset, liability, firm commitment, or forecasted transaction. We also assess, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in these hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

Derivative Hedge Contracts

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

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

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

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