TETRA TECHNOLOGIES INC
Form 10-Q
November 09, 2009

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, 2009

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-13455

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

Delaware (State of incorporation)	74-2148293 (I.R.S. Employer Identification No.)
24955 Interstate 45 North The Woodlands, Texas (Address of principal executive offices)	77380 (zip code)

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

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

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

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

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

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

As of November 1, 2009, there were 75,429,208 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,	
	2009	2008	2009	2008
Revenues:				
Product sales	$82,476	$103,801	$265,514	$373,796
Services and rentals	171,499	145,298	401,656	404,848
Total revenues	253,975	249,099	667,170	778,644
Cost of revenues:				
Cost of product sales	58,598	60,230	175,913	214,448
Cost of services and rentals	95,159	94,768	230,403	266,822
Depreciation, depletion, amortization and accretion	37,445	50,393	114,322	134,192
Total cost of revenues	191,202	205,391	520,638	615,462
Gross profit	62,773	43,708	146,532	163,182
General and administrative expense	24,230	25,641	71,253	78,762
Operating income	38,543	18,067	75,279	84,420
Interest expense, net	2,969	4,217	9,557	12,966
Other (income) expense, net	1,687	(5,316)	61	(4,547)
Income before taxes and discontinued operations	33,887	19,166	65,661	76,001
Provision for income taxes	11,075	7,048	22,269	26,372
Income before discontinued operations	22,812	12,118	43,392	49,629
Loss from discontinued operations, net of taxes	(150)	(461)	(393)	(1,868)
Net income	$22,662	$11,657	$42,999	$47,761
Basic net income per common share:				
Income before discontinued operations	$0.30	$0.16	$0.58	$0.67
Loss from discontinued operations	(0.00)	(0.01)	$(0.01)	(0.03)
Net income	$0.30	$0.15	$0.57	$0.64
Average shares outstanding	75,013	74,613	74,973	74,388
Diluted net income per common share:				
Income before discontinued operations	$0.30	$0.16	$0.58	$0.65
Loss from discontinued operations	(0.00)	(0.01)	$(0.01)	(0.02)
Net income	$0.30	$0.15	$0.57	$0.63
Average diluted shares outstanding	76,060	76,316	75,490	75,874

See Notes to Consolidated Financial Statements

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

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,157	$ 3,882
Restricted cash	266	2,150
Accounts receivable, net of allowances for doubtful accounts of $4,219 in 2009 and $3,198 in 2008	236,419	225,491
Inventories	118,657	117,731
Derivative assets, current portion	27,414	38,052
Prepaid expenses and other current assets	36,649	47,768
Assets of discontinued operations	23	239
Total current assets	427,585	435,313
Property, plant and equipment:		
Land and building	62,093	23,730
Machinery and equipment	473,688	463,788
Automobiles and trucks	42,156	43,047
Chemical plants	47,442	46,121
Oil and gas producing assets (successful efforts method)	707,791	697,754
Construction in progress	157,343	118,103
Total property, plant and equipment	1,490,513	1,392,543
Less accumulated depreciation and depletion	(646,926)	(585,077)
Net property, plant and equipment	843,587	807,466
Other assets:		
Goodwill	99,005	82,525
Patents, trademarks and other intangible assets, net of accumulated amortization of $18,231 in 2009 and $15,611 in 2008	13,954	16,549
Derivative assets, net	4,388	39,098
Other assets	26,588	31,673
Total other assets	143,935	169,845
Total assets	$ 1,415,107	$ 1,412,624

See Notes to Consolidated Financial Statements

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

	September 30, 2009	December 31, 2008
LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited)	
Current liabilities:		
Trade accounts payable	$ 60,808	$ 84,027
Accrued liabilities	162,043	128,441
Liabilities of discontinued operations	-	13
Total current liabilities	222,851	212,481
Long-term debt, net of current portion	414,183	406,840
Deferred income taxes	67,514	64,911
Decommissioning liabilities, net of current portion	142,814	202,771
Other liabilities	12,729	9,800
Total long-term and other liabilities	637,240	684,322
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01 per share; 100,000,000 shares authorized; 76,942,837 shares issued at September 30, 2009 and 76,841,424 shares issued at December 31, 2008	769	768
Additional paid-in capital	192,020	186,318
Treasury stock, at cost; 1,601,417 shares held at September 30, 2009 and 1,582,465 shares held at December 31, 2008	(8,880)	(8,843)
Accumulated other comprehensive income	33,418	42,888
Retained earnings	337,689	294,690
Total stockholders' equity	555,016	515,821
Total liabilities and stockholders' equity	$ 1,415,107	$ 1,412,624

See Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2009	2008
Operating activities:		
Net income	$ 42,999	$ 47,761
Reconciliation of net income to cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	110,991	118,113
Impairments of long-lived assets	10,039	9,952
Dry hole costs	82	6,127
Provision for deferred income taxes	12,943	10,284
Stock compensation expense	5,730	4,190
(Gain) loss on sale of property, plant and equipment	(2,478)	(3,412)
Other non-cash charges and credits	18,627	5,047
Proceeds from sale of cash flow hedge derivatives	23,060	-
Excess tax benefit from exercise of stock options	-	(1,598)
Equity in (earnings) loss of unconsolidated subsidiary	(293)	(356)
Changes in operating assets and liabilities, net of assets acquired:		
Accounts receivable	(5,387)	24,643
Inventories	(214)	(6,837)
Prepaid expenses and other current assets	8,101	(4,408)
Trade accounts payable and accrued expenses	(17,360)	(15,699)
Decommissioning liabilities	(71,791)	(15,519)
Operating activities of discontinued operations	203	3,216
Other operating activities	2,045	(1,762)
Net cash provided by operating activities	137,297	179,742
Investing activities:		
Purchases of property, plant and equipment	(128,031)	(204,916)
Business combinations	(18,105)	-
Proceeds from sale of property, plant and equipment	1,901	180
Other investing activities	2,664	(1,996)
Net cash used in investing activities	(141,571)	(206,732)
Financing activities:		
Proceeds from long-term debt obligations	96,000	151,450
Principal payments on long-term debt obligations	(90,346)	(127,928)

Proceeds from exercise of stock options		376		3,045	
Excess tax benefit from exercise of stock options		-		1,598	
Net cash provided by financing activities		6,030		28,165	
Effect of exchange rate changes on cash		2,519		(1,071	)
Increase in cash and cash equivalents		4,275		104	
Cash and cash equivalents at beginning of period		3,882		21,833	
Cash and cash equivalents at end of period	$	8,157	$	21,937	
Supplemental cash flow information:					
Interest paid	$	13,017	$	12,036	
Income taxes paid		10,909		9,192	
Supplemental disclosure of non-cash investing and financing activities:					
Oil and gas properties acquired through assumption of decommissioning liabilities	$	-	$	22,236	
Adjustment of fair value of decommissioning liabilities capitalized to oil and gas properties		21,708		21,150	

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 an oil and gas services and production company with an integrated calcium chloride and brominated products manufacturing operation that supplies feedstocks to energy markets, as well as to other markets. 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, 2008.

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, 2009 consists of third party funds held by us to be used to make repairs and improvements at one of our Fluids Division completion services facilities. This cash will remain restricted until such time as the associated project is completed or the funds are refunded.

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, 2009 and December 31, 2008, are as follows:

	September 30, 2009	December 31, 2008
	(In Thousands)	
Finished goods	$ 85,305	$ 85,908

Raw materials	3,030	4,106
Parts and supplies	26,822	26,531
Work in progress	3,500	1,186
	$ 118,657	$ 117,731

Repair Costs and Insurance Recoveries

During the first quarter of 2009, one of our Fluids Division's transport barges capsized and sank while docked near our West Memphis manufacturing facility, destroying the vessel and the majority of the inventory cargo. The damages associated with the sunken transport barge consist of the cost of recovery efforts, replacement or repair of the barge, and the lost inventory cargo. Total damages associated with the sunken barge were approximately $4.6 million.

During the third quarter of 2008, we suffered damage to certain of our properties as a result of Hurricanes Ike and Gustav. Primarily as a result of Hurricane Ike, Maritech suffered varying levels of damage to the majority of its offshore oil and gas producing platforms. In addition, three of its offshore platforms and one of its inland water production facilities were toppled and/or destroyed. Maritech is the operator of two of the destroyed offshore platforms and the production facility and owns a 10% working interest in the third offshore platform. In addition, certain of our fluids facilities also suffered damage during the 2008 storms. Maritech also suffered damage as a result of Hurricanes Katrina and Rita during 2005, including three additional offshore platforms that were destroyed.

Remaining hurricane damage repair efforts consist primarily of the well intervention, abandonment, decommissioning, and debris removal associated with the destroyed offshore platforms and the construction of replacement platforms and redrilling of certain destroyed wells. While a portion of the well intervention, abandonment, and decommissioning work has been performed on certain of the destroyed platforms and the inland water production facility, some of the work to be performed has not been fully assessed. Through September 30, 2009, we have incurred approximately $80.6 million for the well intervention, abandonment, and decommissioning work performed on the platforms and production facility which were destroyed by Hurricanes Katrina, Rita, Ike, and Gustav. The majority of the well intervention and decommissioning efforts to date has been performed by our Offshore Services segment. We estimate that remaining well intervention, abandonment, and decommissioning efforts associated with the destroyed platforms and production facility, as well as the efforts to remove debris, reconstruct certain destroyed structures, and redrill certain associated wells, will be performed at an additional cost of approximately $100 to $130 million net to our interest and before any insurance recoveries. The estimated amount of the future cost of well intervention, abandonment, decommissioning, and debris removal was recorded in the period in which such damage occurred, net of expected insurance recoveries, as part of Maritech's decommissioning liabilities.

One of the offshore platforms destroyed in 2008 by Hurricane Ike served a key producing field. We are currently planning to construct a new platform from which we will be able to redrill certain of the wells associated with the destroyed platform in order to restore a portion of the production from this field. The cost to construct the platform and redrill these wells, net of insurance recoveries, will be capitalized as oil and gas properties.

We have maintained insurance protection which we believe to be customary and in amounts sufficient to reimburse us for a majority of the repair, well intervention, abandonment, decommissioning, and debris removal costs associated with the damages incurred from hurricanes and other damages, such as the value of the lost inventory and the cost to replace the sunken transport barge, reconstruct the destroyed platforms, and redrill the associated wells. Such insurance coverage is subject to certain coverage limits, however, and it is possible we could exceed these coverage limits. In addition, with regard to the 2008 hurricanes, the relevant insurance policies provide for deductibles of up to $5 million per hurricane, and this deductible has been satisfied for Hurricane Ike. Damage assessment costs, repair expenses up to the amount of insurance deductibles, and other costs not covered by insurance are charged to earnings as they are incurred. For the nine month periods ended September 30, 2009 and 2008, we recognized hurricane related expenses of $10.8 million and $4.3 million, respectively. Due to the prohibitively high premium cost and deductible, and the significantly reduced policy limit and confining sub-limits for renewal of Maritech's windstorm insurance coverage that terminated on May 31, 2009, beginning June 2009, we have elected to self-insure Maritech's windstorm damage risk through the 2009 hurricane season. We have, however, renewed Maritech's operational risk policies.

With regard to the costs incurred which 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 relates. The amount of anticipated insurance recoveries is included either in accounts receivable or as a reduction of Maritech's decommissioning liabilities in the accompanying consolidated balance sheets.

As discussed further in Note G – Commitments and Contingencies, Insurance Litigation, Maritech incurred certain well intervention, debris removal, and repair costs related to damage in 2005 from Hurricanes Katrina and Rita which were not reimbursed by its insurers. In December 2007, we filed a lawsuit against our insurers and other associated parties in an attempt to collect pursuant to the applicable policies. Subsequent to September 30, 2009, we entered into a settlement agreement under which we expect to receive approximately $40.0 million of the unreimbursed costs. Following the receipt of these settlement proceeds, no significant additional insurance recoveries of well intervention, debris removal, or excess property damage costs associated with Hurricanes Katrina and Rita are anticipated. We have reviewed the types of estimated well intervention costs expected to be incurred related to Hurricanes Ike and Gustav. Despite our belief that substantially all of these costs in excess of deductibles and within policy limits will qualify for coverage under our current insurance policies, any costs related to Hurricanes Ike and Gustav that are similar to the costs that were not initially reimbursed by our insurers following the 2005 storms have been excluded from anticipated insurance recoveries.

The changes in anticipated insurance recoveries, including anticipated recoveries associated with the sunken barge and other non-hurricane related claims, during the nine months ended September 30, 2009 are as follows:

	Nine Months Ended September 30, 2009 (In Thousands)
Beginning balance	$ 33,591
Activity in the period:	
Claim related expenditures and damages, net	18,817
Insurance reimbursements	(13,757)
Contested insurance recoveries	(580)
Ending balance at September 30, 2009	$ 38,071

Anticipated insurance recoveries that have been reflected as a reduction of our decommissioning liabilities were $10.3 million and $19.5 million at September 30, 2009 and December 31, 2008, respectively. Anticipated insurance recoveries that have been reflected as insurance receivables, including the damages incurred during 2009 from the sunken barge, were $27.8 million and $14.1 million at September 30, 2009 and December 31, 2008, respectively. Uninsured assets that were destroyed during the period are charged to earnings. Repair costs incurred and the net book value of any destroyed assets which are covered under our insurance policies are anticipated insurance recoveries which are included in accounts receivable. Repair costs not considered probable of collection are charged to earnings. Insurance recoveries in excess of destroyed asset carrying values and repair costs incurred are credited to earnings when received. During the nine months ended September 30, 2009, we received $5.4 million of insurance recoveries associated with the 2005 hurricanes, and such amount was credited to earnings during the period. Intercompany profit on repair work performed by our Offshore Services segment is not recognized until such time as insurance claim proceeds are received.

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,	
	2009	2008	2009	2008
Number of weighted average common shares outstanding	75,012,672	74,613,233	74,972,661	74,388,369
Assumed exercise of stock options	1,046,922	1,702,724	516,884	1,485,660
Average diluted shares outstanding	76,059,594	76,315,957	75,489,545	75,874,029

In applying the treasury stock method to determine the dilutive effect of the stock options outstanding during the first nine months of 2009, we used the average market price of our common stock of $6.60. For the three months ended September 30, 2009 and 2008, the calculations of the average diluted shares outstanding exclude the impact of 2,754,253 and 2,147,118 outstanding stock options, respectively, that have exercise prices in excess of the average market price, as the inclusion of these shares would have been antidilutive. For the nine months ended September 30, 2009 and 2008, the calculations of the average diluted shares outstanding exclude the impact of 3,531,826 and 1,738,552 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 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, 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 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.

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 whether 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.

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

We utilize fair value measurements to account for certain items and account balances within our consolidated financial statements. Fair value measurements are utilized in the allocation of purchase consideration for acquisition transactions to the assets and liabilities acquired, including intangible assets and goodwill. In addition, we utilize fair value measurements in the initial recording of our decommissioning and other asset retirement obligations. Fair value measurements may also be utilized on a nonrecurring basis, such as for the impairment of long-lived assets including goodwill. The fair value of certain of our financial instruments, which may include cash, temporary investments, accounts receivable, 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, 2009 was approximately $297.2 million compared to a carrying amount of approximately $310.9 million. 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 the fair value 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 compare forward 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. A summary of these fair value measurements, using the fair value hierarchy as prescribed by FASB Codification Topic 820, as of September 30, 2009 is as follows:

		Fair Value Measurements as of September 30, 2009 Using
	Quoted Prices in	

Description	Total as of Sept 30, 2009	Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Asset for natural gas swap contracts	$ 28,290	$ -	$ 28,290	$ -
Asset for oil swap contracts	3,512	-	3,512	-
	$ 31,802			

During the three months ended March 31, 2009, the full carrying value of a Maritech oil and gas property was charged to earnings as an impairment of $0.4 million. During the three months ended June 30, 2009, the full carrying value of certain Maritech oil and gas properties were charged to earnings as an impairment of $1.9 million. During the three months ended September 30, 2009, additional Maritech oil and gas property impairments of $0.6 million were charged to earnings. The change in the fair value of these properties was due to decreased expected future cash flows based on forward oil and natural gas pricing data from published sources. Because such 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.

Our Fluids Division owns a 50% interest in an unconsolidated joint venture whose assets consist primarily of a calcium chloride plant located in Europe. In April 2009, the joint venture partner announced the planned shutdown of its adjacent plant facility, which supplies raw material to the calcium chloride plant. As a result, the joint venture's calcium chloride plant is also expected to be shut down. During the three months ended June 30, 2009, we reduced our investment in the joint venture to its estimated fair value based on the estimated plant decommissioning costs and salvage value cash flows of the joint venture, resulting in an impairment of our investment in the joint venture of $6.8 million. Because the investment fair value was determined based on internally prepared estimates, such fair value calculation is based on significant unobservable inputs (Level 3) in accordance with the fair value hierarchy.

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

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

Subsequent Events

With respect to the issuance of our consolidated financial statements as of September 30, 2009, we considered subsequent events, including the October 2009 settlement of certain insurance litigation, occurring through the date of November 9, 2009, the date the consolidated financial statements were issued.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) published SFAS No. 168, “The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162,” which establishes the FASB Accounting Standards Codification™ (FASB Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Beginning on the effective date of the standard (now incorporated into FASB Codification Subtopic 105-10), the FASB Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the FASB Codification has become non-authoritative. The standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In the FASB’s view, the issuance of the standard and the FASB Codification will not change GAAP for public companies, and, accordingly, the adoption of the standard did not have a significant impact on our financial statements.

In March 2008, the FASB published SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (FASB Codification Subtopic 815-10), which requires entities to provide greater transparency about (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under FASB Codification Subtopic 815-10 (SFAS No. 133 and its related interpretations); and (3) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. This standard is effective for financial statements issued for fiscal years and interim periods within those fiscal years, beginning after November 15, 2008. Accordingly, we adopted the new disclosure requirements as of January 1, 2009 (see Note E – Hedge Contracts).

In December 2007, the FASB published SFAS No. 141R, "Business Combinations" (incorporated into FASB Codification Topic 805), which established principles and requirements for how an acquirer of a business (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The standard changes many aspects of the accounting for business combinations and applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted this standard as of January 1, 2009 with no significant impact, as there have been no acquisitions in the current year. However, the standard is expected to significantly impact how we account for and disclose future acquisition transactions.

In April 2009, the FASB issued FASB Staff Position (FSP) SFAS No. 141R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (incorporated into FASB Codification Subtopic 805-20). This FSP amends and clarifies SFAS No. 141R, "Business Combinations" (FASB Codification Topic 805), to require that an acquirer recognize at fair value, as of the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition date fair value of that asset or liability can be determined during the measurement period. If the acquisition date fair value of such an asset acquired or liability assumed cannot be determined, the acquirer is required to apply the provisions of FASB Codification Topic 450 (SFAS No. 5, "Accounting for Contingencies") to determine whether the contingency should be recognized at the acquisition date or after it. The standard is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning after December 15, 2008. Accordingly, we adopted the standard as of January 1, 2009 with no significant impact, as there have been no acquisitions in the current year.

In December 2007, the FASB published SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," (FASB Codification Subtopic 810-10), which establishes accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This standard is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. We adopted this standard as of January 1, 2009, however, the impact was not material.

In April 2009, the FASB published FSP SFAS No. 107-1 and APB Opinion No. 28-1, "Interim Disclosures About Fair Value of Financial Instruments," (incorporated into FASB Codification Subtopic 825-10), which requires quarterly fair value disclosures for financial instruments that are not reflected in the consolidated balance sheets at fair value. Prior to the issuance of this standard, the fair values of those assets and liabilities were disclosed only annually. This standard was applied prospectively effective April 1, 2009, and did not materially impact the presentation of our financial statements.

In May 2009, the FASB published SFAS No. 165, "Subsequent Events," (FASB Codification Topic 855), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, it sets forth (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This standard is effective for financial statements for periods ending after June 15, 2009, however, our adoption of the standard did not have a significant impact on our financial statements.

In December 2008, the Securities and Exchange Commission released its “Modernization of Oil and Gas Reporting” rules, which revise the disclosure of oil and gas reserve information. The new disclosure requirements include provisions that permit the use of new technologies to determine proved reserves in certain circumstances. The new requirements will also allow companies to disclose their probable and possible reserves and require companies to (1) report on the independence and qualifications of a reserves preparer or auditor; (2) file reports when a third party is relied upon to prepare reserve estimates or conduct a reserves audit; and (3) report oil and gas reserves using an average price based upon the prior twelve month period, rather than year-end prices. These new reporting requirements are effective for annual reports on Form 10-K for fiscal years ending on or after December 31, 2009. We are currently assessing the impact that the adoption of the new disclosure requirements will have on our disclosures of oil and gas reserves.

NOTE B – ACQUISITIONS

In March 2006, we acquired Beacon Resources, LLC (Beacon), a production testing operation, for approximately $15.6 million paid at closing. In addition, the acquisition agreement provided for additional contingent consideration of up to $19.1 million, depending on the average of Beacon's annual pretax results of operations over the three year period following the closing date through March 2009. Based on Beacon's annual pretax results of operations during this three year period, we paid $12.7 million in April 2009 to the sellers pursuant to this contingent consideration provision. This amount was charged to goodwill associated with the acquisition of Beacon.

In March 2006, we acquired the assets and operations of Epic Divers, Inc. and certain affiliated companies (Epic), a full service commercial diving operation. In June 2006, Epic purchased a dynamically positioned dive support vessel and saturation diving unit. Pursuant to the Epic Asset Purchase Agreement, a portion of the net profits earned by this dive support vessel and saturation diving unit over the initial three year term following its purchase was to be paid to the sellers. Based on the vessel's high utilization following the 2008 hurricanes, we paid $3.8 million in July 2009 pursuant to this contingent consideration provision. This amount was charged to goodwill associated with the acquisition of Epic. In addition, approximately $1.6 million of the purchase price of the dive support vessel was deducted from the original purchase consideration for Epic. Pursuant to the Epic Asset Purchase Agreement, this amount was to be paid to sellers upon the third anniversary of the acquisition. This amount was accrued as part of the original recording of the Epic acquisition during the first quarter of 2006, and it was paid in June 2009.

NOTE C – LONG-TERM DEBT AND OTHER BORROWINGS

Long-term debt consists of the following:

	Scheduled Maturity	September 30, 2009		December 31, 2008	
		(In Thousands)			
Bank revolving line of credit facility	June 26, 2011	$	103,326	$	97,368
5.07% Senior Notes, Series 2004-A	September 30, 2011		55,000		55,000
4.79% Senior Notes, Series 2004-B	September 30, 2011		40,857		39,472
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
European Credit Facility			-		-
			414,183		406,840
Less current portion			-		-
Total long-term debt		$	414,183	$	406,840

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. 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. We also operate facilities in various U.S. and foreign locations that are used in the manufacture, storage, and/or sale of our products, inventories, and equipment, including offshore oil and gas production facilities and equipment. These facilities are a combination of owned and leased assets. We are required to take certain actions in connection with the retirement of these assets. We have reviewed our obligations in this regard in detail and estimated the cost of these actions. These estimates are the fair values that have been recorded for retiring these long-lived assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The costs are depreciated on a straight-line basis over the life of the asset for non-oil and gas assets and on a unit of production basis for oil and gas properties.

The changes in total asset retirement obligations during the three and nine months ended September 30, 2009 and 2008 are as follows:

	Three Months Ended September 30,			
	2009		2008	
	(In Thousands)			
Beginning balance as of June 30	$	229,996	$	223,397
Activity in the period:				
Accretion of liability		1,950		2,171
Retirement obligations incurred		-		-
Revisions in estimated cash flows		12,832		23,412
Settlement of retirement obligations		(24,590)		(9,972)
Ending balance as of September 30	$	220,188	$	239,008

	Nine Months Ended September 30,			
	2009		2008	
	(In Thousands)			
Beginning balance as of December 31 of the preceding year	$	248,725	$	199,506
Activity in the period:				
Accretion of liability		6,350		6,292
Retirement obligations incurred		-		20,274
Revisions in estimated cash flows		36,198		30,553
Settlement of retirement obligations		(71,085)		(17,617)
Ending balance as of September 30	$	220,188	$	239,008

As of September 30, 2009, approximately $77.4 million of the decommissioning and asset retirement obligation is related to well abandonment and decommissioning costs to be incurred over the next twelve month period and is included in current liabilities in the accompanying consolidated balance sheet.

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 the outstanding balance under a variable rate bank credit facility, 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.

Derivative Hedge Contracts

As of September 30, 2009, 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 Year
September 30, 2009			
Natural gas swap contracts	25,000 MMBtu/day	$8.967/MMBtu	2009
Natural gas swap contracts	20,000 MMBtu/day	$8.147/MMBtu	2010
Oil swap contract	2,000 Bbls/day	$78.70/Bbl	2010

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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 summary above includes a natural gas swap contract for 10,000 MMBtu/day of 2010 production at a contract price of $6.03/MMBtu and an oil swap contract for 2,000 barrels/day of 2010 production at a contract price of $78.70/barrel, both of which were added during 2009.

We believe that our swap agreements are "highly effective cash flow hedges," as defined by FASB Codification Topic 815, in managing the volatility of future cash flows associated with our 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. This component of accumulated other comprehensive income associated with cash flow hedge derivative contracts, including those derivative contracts which 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, 2009, approximately $24.8 million of other comprehensive income associated with cash flow hedge derivatives is expected to be reclassified into product sales revenue in the subsequent twelve month period. Any "ineffective" portion of the change in the derivative's fair value is recognized in earnings immediately.

The fair values of our oil and natural gas swap contracts as of September 30, 2009 are as follows:

Derivatives designated as hedging instruments	Balance Sheet Location		Fair Value at September 30, 2009 (In Thousands)
Natural gas swap contracts	Current assets	$	24,780
Oil swap contract	Current assets		2,634
Natural gas swap contracts	Long-term assets		3,510
Oil swap contract	Long-term assets		878
Total derivatives designated as hedging instruments		$	31,802

Oil and natural gas swap assets which are classified as current assets relate to the portion of the derivative contracts associated with hedged oil and gas production to occur over the next twelve month period. None of the oil and natural gas swap contracts contain credit risk related contingent features that would require us to post assets as collateral for contracts that are classified as liabilities.

As the hedge contracts were highly effective, the effective portion of the gain, net of taxes, from changes in contract fair value, including the gain on the liquidated oil swap contracts, is included in other comprehensive income within stockholders' equity as of September 30, 2009.

Derivative swap contracts		Oil		September 30, 2009 Natural Gas (In Thousands)		Total
Amount of gain recognized in other comprehensive income on derivatives, net of taxes (effective portion)	$	16,431	$	15,292	$	31,723

Three Months Ended September 30, 2009

Derivative swap contracts	Oil	Natural Gas	Total
		(In Thousands)	
Amount of pretax gain reclassified from accumulated other comprehensive income into product sales revenue (effective portion)	$ 272	$ 11,593	$ 11,865
Amount of pretax gain (loss) recognized in other income (expense) (ineffective portion)	(8)	(689)	(697)

	Nine Months Ended September 30, 2009		
Derivative swap contracts	Oil	Natural Gas	Total
		(In Thousands)	
Amount of pretax gain reclassified from accumulated other comprehensive income into product sales revenue (effective portion)	$ 7,154	$ 30,351	$ 37,505
Amount of pretax gain (loss) recognized in other income (expense) (ineffective portion)	(292)	(1,931)	(2,223)

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Other Hedge Contracts

Our long-term debt includes borrowings which are designated as a hedge of our net investment in our European calcium chloride operations. At September 30, 2009, we had 33.5 million Euros (approximately $48.9 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 $5.3 million, net of taxes, at September 30, 2009 with no ineffectiveness recorded.

NOTE F – COMPREHENSIVE INCOME

Comprehensive income for the three and nine month periods ended September 30, 2009 and 2008 is as follows:

	Three Months Ended September 30, 2009	2008
	(In Thousands)	
Net income	$ 22,662	$ 11,657
Net change in derivative fair value including ineffectiveness, net of taxes of $1,283 and $49,575, respectively	2,165	83,691
Reclassification of derivative fair value into earnings, net of taxes of $(4,416) and $13,190, respectively	(7,448)	22,267
Foreign currency translation adjustment, including taxes of $(183) and $(893), respectively	1,961	(5,015)
Comprehensive income	$ 19,340	$ 112,600

	Nine Months Ended September 30, 2009	2008
	(In Thousands)	
Net income	$ 42,999	$ 47,761
Net change in derivative fair value including ineffectiveness, net of taxes of $4,661 and $(11,360), respectively	7,868	(19,177)
Reclassification of derivative fair value into earnings, net of taxes of $(13,952) and $20,780, respectively	(23,552)	35,081
Foreign currency translation adjustment, including taxes of $(1,806) and $2, respectively	6,214	(2,267)
Comprehensive income	$ 33,529	$ 61,398

NOTE G – COMMITMENTS AND CONTINGENCIES

Litigation

We 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 us cannot be predicted with certainty, management does not reasonably expect these matters to have a material adverse impact on the financial statements.

Insurance Litigation - Through September 30, 2009, we have expended approximately $58.1 million on well intervention and debris removal work primarily associated with the three Maritech offshore platforms and associated wells which were destroyed as a result of Hurricanes Katrina and Rita in 2005. As a result of submitting claims associated with well intervention costs expended during 2006 and 2007 and responding to underwriters' request for additional information, approximately $28.9 million of these well intervention costs were reimbursed; however, our insurance underwriters maintained that well intervention costs for certain of the damaged wells did not qualify as covered costs and certain well intervention costs for qualifying wells were not covered under the policy. In addition, the underwriters also maintained that there was no additional coverage provided under an endorsement we obtained in August 2005 for the cost of debris removal associated with these platforms or for other damage repairs associated with Hurricanes Katrina and Rita on certain properties in excess of the insured values provided by the property damage section of the policy. Although we provided requested information to the underwriters regarding the damaged wells and had numerous discussions with the underwriters, brokers, and insurance adjusters, we did not receive the requested reimbursement for these contested costs. As a result, on November 16, 2007, we filed a lawsuit in Montgomery County, Texas, entitled Maritech Resources, Inc. v. Certain Underwriters and Insurance Companies at Lloyd’s, London subscribing to Policy no. GA011150U and Steege Kingston, in which we sought damages for breach of contract and various related claims and a declaration of the extent of coverage of an endorsement to the policy. We also made an alternative claim against our insurance broker based on its procurement of the August 2005 endorsement and a separate claim against underwriters’ insurance adjuster for its role in handling the insurance claim.

During the fourth quarter of 2007, we reversed the anticipated insurance recoveries previously included in estimating Maritech’s decommissioning liability, increasing the decommissioning liability to $48.4 million for well intervention and debris removal work to be performed, assuming no insurance reimbursements would be received. In addition, during 2007 we reversed a portion of our anticipated insurance recoveries previously included in accounts receivable related to certain damage repair costs incurred, as the amount and timing of further reimbursements from our insurance providers had become indeterminable.

During October 2009, we entered into a settlement agreement with regard to this lawsuit, under which we expect to receive approximately $40.0 million during the fourth quarter of 2009 associated with the August 2005 endorsement and well intervention costs incurred or to be incurred associated with Hurricanes Katrina and Rita. As of November 9, 2009, $31.1 million of these settlement proceeds have been received. Following the receipt of the full amount of these settlement proceeds, no significant additional insurance recoveries of well intervention, debris removal, or excess property damage costs associated with Hurricanes Katrina and Rita will be received. We estimate that future repair and well intervention efforts related to these destroyed platforms, including platform debris removal and other storm related costs caused by Hurricane Rita, will result in approximately $50 million to $70 million of additional costs. As a result of the resolution of this contingency, the full amount of settlement proceeds will be reflected as a credit to earnings in the fourth quarter of 2009.

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

Between May 28, 2008 and June 27, 2008, two petitions were filed by alleged stockholders in the District Courts of Harris County, Texas, 133rd and 113th Judicial Districts, purportedly on our behalf. The suits name our directors and certain officers as defendants. The factual allegations in these lawsuits mirror those in the class action lawsuit, and the claims are for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. The petitions seek disgorgement, costs, expenses, and unspecified equitable relief. On September 22, 2008, the 133rd District Court consolidated these complaints as In re TETRA Technologies, Inc. Derivative Litigation, Cause No. 2008-23432 (133rd Dist. Ct., Harris County, Tex.), and appointed Thomas Prow and Mark Patricola as Co-Lead Plaintiffs. This lawsuit was stayed by agreement of the parties pending the Court’s ruling on our motion to dismiss the federal class action. On September 8, 2009, the plaintiffs in this state court action filed a consolidated petition which makes factual allegations similar to the surviving allegations in the federal lawsuit.

At this stage, it is impossible to predict the outcome of these proceedings or their impact upon us. We currently believe that the allegations made in the federal complaints and state petitions are without merit, and we intend to seek dismissal of and vigorously defend against these actions. While a successful outcome cannot be guaranteed, we do not reasonably expect these lawsuits to have a material adverse effect.

Environmental

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

We have not been named a potentially responsible party by the EPA or any state environmental agency.

NOTE H – INDUSTRY SEGMENTS

We manage our operations through five operating segments: Fluids, Offshore Services, Maritech, Production Testing, and Compressco. Beginning in the fourth quarter of 2008, our Production Enhancement Division consists of two separate reporting segments: the Production Testing segment and the Compressco segment. Segment information for the prior year period has been revised to conform to the 2009 presentation.

Our Fluids Division manufactures and markets clear brine fluids, additives, and other associated products and services to the oil and gas industry for use in well drilling, completion, and workover operations, both domestically and in certain regions of Latin America, Europe, Asia, 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.

Our Offshore Division, previously known as our Well Abandonment and Decommissioning (WA&D) Division, consists of two operating segments: Offshore Services and Maritech. The Offshore Services segment provides (1) downhole and subsea services such as plugging and abandonment, workover, inland water drilling, and wireline services; (2) construction and decommissioning services, including hurricane damage remediation, utilizing our heavy lift barges and cutting technologies in the construction or decommissioning of offshore oil and gas production platforms and pipelines; and (3) diving services involving conventional and saturated air diving and the operation of several dive support vessels.

The Maritech segment consists of our Maritech subsidiary, which, with its subsidiaries, is an oil and gas exploration, exploitation, and production company focused in the offshore, inland waters, and onshore regions of the Gulf of Mexico. Maritech acquires oil and gas properties in order to grow its production operations, to provide additional development and exploitation opportunities, and to provide a baseload of business for the Division’s Offshore Services segment.

Our Production Enhancement Division consists of two operating segments: Production Testing and Compressco. The Production Testing segment provides production testing services to markets in Texas, New Mexico, Colorado, Oklahoma, Arkansas, Louisiana, Pennsylvania, offshore Gulf of Mexico, Mexico, Brazil, Northern Africa, and the Middle East.

The Compressco segment provides wellhead compression-based production enhancement services to a broad base of customers throughout 14 states that encompass most of the onshore producing regions of the United States, as well as in Canada, Mexico, and other international locations. These production enhancement services improve the value of natural gas and oil wells by increasing daily production and total recoverable reserves.

We generally evaluate performance and allocate resources based on profit or loss from operations before income taxes and nonrecurring charges, return on investment, and other criteria. 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, corporate depreciation and amortization, interest income and expense, and other income and expense.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In Thousands)			
Revenues from external customers				
Product sales				
Fluids Division	$38,819	$49,751	$132,534	$179,837
Offshore Division				
Offshore Services	656	1,194	2,226	3,436
Maritech	42,584	51,352	127,572	183,701
Intersegment eliminations	-	-	-	-
Total Offshore Division	43,240	52,546	129,798	187,137
Production Enhancement Division				
Production Testing	-	-	-	-
Compressco	417	1,504	3,182	6,822
Total Production Enhancement Division	417	1,504	3,182	6,822
Consolidated	82,476	103,801	265,514	373,796
Services and rentals				
Fluids Division	12,073	15,452	44,217	48,881
Offshore Division				
Offshore Services	130,652	83,141	269,351	211,741
Maritech	735	535	2,367	1,167
Intersegment eliminations	(11,574)	(8,417)	(40,600)	(14,336)
Total Offshore Division	119,813	75,259	231,118	198,572
Production Enhancement Division				
Production Testing	19,070	31,356	61,975	92,876
Compressco	20,543	23,231	64,346	64,519
Total Production Enhancement Division	39,613	54,587	126,321	157,395
Consolidated	171,499	145,298	401,656	404,848
Intersegment revenues				
Fluids Division	(3)	196	38	331
Offshore Division				
Offshore Services	174	6	206	42
Maritech	-	-	-	-
Intersegment eliminations	-	-	-	-
Total Offshore Division	174	6	206	42
Production Enhancement Division				
Production Testing	-	9	1	23
Compressco	-	-	-	-
Total Production Enhancement Division	-	9	1	23
Intersegment eliminations	(171)	(211)	(245)	(396)
Consolidated	-	-	-	-
Total revenues				
Fluids Division	50,889	65,399	176,789	229,049
Offshore Division				

Offshore Services	131,482	84,341	271,783	215,219
Maritech	43,319	51,887	129,939	184,868
Intersegment eliminations	(11,574)	(8,417)	(40,600)	(14,336)
Total Offshore Division	163,227	127,811	361,122	385,751
Production Enhancement Division				
Production Testing	19,070	31,365	61,976	92,899
Compressco	20,960	24,735	67,528	71,341
Total Production Enhancement Division	40,030	56,100	129,504	164,240
Intersegment eliminations	(171)	(211)	(245)	(396)
Consolidated	$253,975	$249,099	$667,170	$778,644

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended, September 30, 2009	Nine Months Ended, September 30, 2008
Income before taxes and discontinued operations		(In Thousands)		
Fluids Division	$ 5,800	$ 1,895	$ 19,169	$ 24,306
Offshore Division				
Offshore Services	40,250	9,793	62,630	17,237
Maritech	(7,158)	1,814	(9,403)	26,757
Intersegment eliminations	1,120	(243)	622	303
Total Offshore Division	34,212	11,364	53,849	44,297
Production Enhancement Division				
Production Testing	2,850	8,127	15,931	25,885
Compressco	5,277	8,039	17,850	22,680
Total Production Enhancement Division	8,127	16,166	33,781	48,565
Corporate overhead	(14,252)(1)	(10,259)(1)	(41,138)(1)	(41,167)(1)
Consolidated	$ 33,887	$ 19,166	$ 65,661	$ 76,001

	September 30, 2009	September 30, 2008
Total assets	(In Thousands)	
Fluids Division	$ 370,425	$ 330,291
Offshore Division		
Offshore Services	237,338	243,819
Maritech	398,089	420,941
Intersegment eliminations	(2,280)	(1,816)
Total Offshore Division	633,147	662,944
Production Enhancement Division		
Production Testing	103,871	97,893
Compressco	205,623	211,348
Total Production Enhancement Division	309,494	309,241
Corporate overhead	102,041 (2)	108,056 (2)
Consolidated	$ 1,415,107	$ 1,410,532

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
		(In Thousands)		
General and administrative expense	$ 9,559	$ 8,194	$ 27,127	$ 28,089
Depreciation and amortization	784	615	2,231	1,835
Interest expense	2,969	4,036	9,686	13,049
	940	(2,586)	2,094	(1,806)

Other general corporate (income) expense, net				
Total	$ 14,252	$ 10,259	$ 41,138	$ 41,167

(2) Includes assets of discontinued operations.

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

Business Overview

Led by the strong performance of our Offshore Services segment, our third quarter 2009 revenues and profitability increased compared to the prior year period, despite the continuing global economic recession which continues to affect many of our businesses. Following the significant damage from hurricanes during 2005 and 2008, and as a result of the risk of damage from future storms, Gulf of Mexico oil and gas operators continue to have a high demand for well abandonment, platform decommissioning, diving, and cutting services. The Offshore Services segment reported unprecedented profitability during the quarter as a result of this increased demand from its customers, its increased service capacity, its enhanced execution efficiency, and the near optimal weather conditions during the period. This segment significantly exceeded its performance from the prior year quarter which was interrupted by Hurricanes Gustav and Ike. While the Offshore Services segment expects to experience its typical reduced activity during the winter season, it anticipates continued strong demand for its services in 2010. Despite decreased revenues, the Fluids Division also reported increased profitability as a result of decreased product costs and administrative expenses. The overall decreased demand for many of our products and services has particularly affected our Production Testing, Compressco, and Maritech operations, as each of these segments reported decreased revenues and profitability during the third quarter of 2009 compared to the prior year period, continuing the trend from the first half of the year. Maritech also continues to be affected by reduced production volumes, primarily due to one of its major producing fields remaining shut-in following Hurricane Ike, as well as from the reduced number of newly drilled wells as a result of our efforts to conserve capital. Prospects for improvement in each of these three business segments are largely tied to natural gas prices, which have begun to increase in recent weeks. However, the overall demand for our products and services is also driven by spending levels within the oil and gas industry, particularly domestically, which is also affected by the availability of capital and general economic conditions.

During the past year's economic uncertainty, we have continued our focus on maximizing operating cash flows and conserving capital resources, while continuing with selected strategic growth initiatives.In particular, our new El Dorado, Arkansas calcium chloride plant facility, which is expected to be completed in the first quarter of 2010, is the most significant capital construction project in our history. The construction of this facility was funded primarily from operating cash flows, resulting in minimal increased borrowings under our long-term debt facility. This achievement was accomplished despite a difficult market environment for many of our businesses through a combination of reducing or deferring other capital expenditures, reducing operating and administrative expenses, enhancing operating efficiencies, and carefully managing working capital. The completion of the El Dorado, Arkansas facility, which is expected to begin its initial commercial production during the fourth quarter of 2009, is expected to further increase the Fluids Division's efficiency in manufacturing its chemicals and completion fluids products, which should strengthen operating cash flows in future years. In October 2009, we entered into a settlement agreement with the various parties to our insurance litigation regarding certain costs associated with Maritech offshore platforms which were damaged or destroyed by Hurricanes Katrina and Rita during 2005. As a result of this settlement, during the fourth quarter of 2009 we expect to receive approximately $40.0 million, which will further increase our operating cash flows for the year. In addition to applying our 2009 operating cash flows to capital expenditure projects, we also made significant progress in the abandonment and decommissioning of many of Maritech's offshore oil and gas property assets, expending approximately $71.8 million. As of September 30, 2009, Maritech reflects an asset retirement obligation for the remainder of its abandonment and decommissioning efforts of approximately $215.9 million, much of which consists of the remaining work to be done associated with the offshore platforms which were destroyed during the 2005 and 2008 hurricanes. As of September 30, 2009, the outstanding balance of our long-term debt had increased to $414.2 million, an increase of $7.3 million from the beginning of the year. Our bank credit facility is scheduled to mature in June 2011, and our Senior Notes are scheduled to mature at various dates from September 2011 through April 2016.

Critical Accounting Policies

There have been no material changes or developments in the evaluation of the accounting estimates and the underlying assumptions or methodologies pertaining to our Critical Accounting Policies and Estimates disclosed in our Form 10-K for the year ended December 31, 2008. In preparing our consolidated financial statements, we make assumptions, estimates, and judgments that affect the amounts reported. We periodically evaluate our estimates and judgments, including those related to potential impairments of long-lived assets (including goodwill), the collectability of accounts receivable (including insurance receivables), and the current cost of future abandonment and decommissioning obligations. Our 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 as our operating environment changes. Actual results are likely to differ from our current estimates, and those differences may be material.

Impairment of Goodwill – The impairment of goodwill is assessed whenever impairment indicators are present, but no less than once annually. The assessment for goodwill impairment is performed for each reporting unit, and consists of a comparison of the carrying amount of each reporting unit to our estimation of the fair value of that reporting unit. If the carrying amount of the reporting unit exceeds its estimated fair value, an impairment loss is calculated by comparing the carrying amount of the reporting unit's goodwill to our estimated implied fair value of that goodwill. Our estimates of reporting unit fair value are imprecise and are subject to our estimates of the future cash flows of each business and our judgment as to how these estimated cash flows translate into each business' estimated fair value. These estimates and judgments are affected by numerous factors, including the general economic environment at the time of our assessment, which affects our overall market capitalization. During the fourth quarter of 2008, due to changes in the global economic environment which affected our stock price and market capitalization, we recorded an impairment of goodwill of $47.1 million related to our Fluids and Offshore Services segments. We feel our estimates of the fair value for each reporting unit are reasonable. However, given the current volatile economic environment, the likelihood of additional material impairments of goodwill in future periods is higher.

As of September 30, 2009, our Offshore Services, Production Testing, and Compressco reporting units reflect goodwill in the amounts of $3.8 million, $23.0 million, and $72.2 million, respectively. The fair value of our Offshore Services and Production Testing reporting units significantly exceeds their associated carrying values. However, because the estimated fair value of our Compressco reporting unit currently exceeds its carrying value by approximately 11.1%, there is a reasonable possibility that Compressco's goodwill may be impaired in a future period, and the amount of such impairment may be material. Specific uncertainties affecting the estimated fair value of our Compressco reporting unit include the prices received by Compressco's customers for natural gas production, the rate of future growth of Compressco's business, and the need and timing of the full resumption of the fabrication of Compressco's new GasJack® compressor units. The demand for Compressco's wellhead compression services has been negatively affected by the global economic environment and the decrease in natural gas prices compared to the prior year. Further decreases in such demand could have a further negative effect on the fair value of our Compressco reporting unit.

Results of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In Thousands)			
Revenues				
Fluids Division	$50,889	$65,399	$176,789	$229,049
Offshore Division				
Offshore Services	131,482	84,341	271,783	215,219
Maritech	43,319	51,887	129,939	184,868
Intersegment eliminations	(11,574)	(8,417)	(40,600)	(14,336)
Total Offshore Division	163,227	127,811	361,122	385,751
Production Enhancement Division				
Production Testing	19,070	31,365	61,976	92,899
Compressco	20,960	24,735	67,528	71,341
Total Production Enhancement Division	40,030	56,100	129,504	164,240
Intersegment eliminations	(171)	(211)	(245)	(396)
	253,975	249,099	667,170	778,644

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In Thousands)			
Gross profit				
Fluids Division	$10,236	$10,440	$40,439	$46,090
Offshore Division				
Offshore Services	45,800	13,857	75,374	29,832
Maritech	(5,813)	(1,285)	(8,662)	26,034
Intersegment eliminations	1,120	(244)	546	303
Total Offshore Division	41,107	12,328	67,258	56,169
Production Enhancement Division				
Production Testing	4,309	10,521	15,452	31,978
Compressco	7,919	11,037	25,631	30,786
Total Production Enhancement Division	12,228	21,558	41,083	62,764
Other	(798)	(618)	(2,248)	(1,841)
	62,773	43,708	146,532	163,182
Income before taxes and discontinued operations				
Fluids Division	5,800	1,895	19,169	24,306
Offshore Division				
Offshore Services	40,250	9,793	62,630	17,237
Maritech	(7,158)	1,814	(9,403)	26,757
Intersegment eliminations	1,120	(243)	622	303
Total Offshore Division	34,212	11,364	53,849	44,297
Production Enhancement Division				
Production Testing	2,850	8,127	15,931	25,885
Compressco	5,277	8,039	17,850	22,680
Total Production Enhancement Division	8,127	16,166	33,781	48,565
Corporate overhead	(14,252)	(10,259)	(41,138)	(41,167)
	33,887	19,166	65,661	76,001

The above information excludes the results of our Venezuelan and process services businesses, which have been accounted for as discontinued operations.

Three months ended September 30, 2009 compared with three months ended September 30, 2008.

Consolidated Comparisons

Revenues and Gross Profit – Our total consolidated revenues for the quarter ended September 30, 2009 were $254.0 million compared to $249.1 million for the third quarter of the prior year, an increase of 2.0%. Our consolidated gross profit increased to $62.8 million during the third quarter of 2009 compared to $43.7 million in the prior year quarter, an increase of 43.6%. Consolidated gross profit as a percentage of revenue was 24.7% during the third quarter of 2009 compared to 17.5% during the prior year period.

General and Administrative Expenses – General and administrative expenses were $24.2 million during the third quarter of 2009 compared to $25.6 million during the third quarter of 2008, a decrease of $1.4 million or 5.5%. This decrease was primarily due to approximately $0.9 million of decreased salary, benefits, contract labor costs, and other associated employee expenses, primarily as a result of personnel cost reductions and despite increased incentive compensation. In addition, general and administrative expenses decreased due to decreased office expenses of approximately $0.5 million, primarily from decreased office rent following the completion of our new corporate headquarters building, and approximately $0.1 million from decreased professional fees. These decreases were partially offset by approximately $0.1 million of increased general expenses. General and administrative expenses as a percentage of revenue decreased to 9.5% during the third quarter of 2009 compared to 10.3% during the prior year period.

Other Income and Expense – Other income and expense was $1.7 million of expense during the third quarter of 2009 compared to $5.3 million of income during the third quarter of 2008, primarily due to $4.3 million of increased gains from asset sales during the prior year period. In addition, the current year period includes approximately $0.7 million of hedge ineffectiveness losses compared to approximately $2.9 million of hedge ineffectiveness income during the prior year period. Partially offsetting these changes, other income increased approximately $1.2 million, primarily due to increased foreign currency gains.

Interest Expense and Income Taxes – Net interest expense decreased to $3.0 million during the third quarter of 2009 compared to $4.2 million during the third quarter of 2008, despite increased borrowings of long-term debt which were used to fund our capital expenditure and working capital requirements since the beginning of 2008. The decrease was due to lower interest rates on the outstanding revolving credit facility and due to increased capitalized interest, primarily associated with our El Dorado, Arkansas calcium chloride plant construction project, which is expected to begin its initial commercial production during the fourth quarter of 2009. Our provision for income taxes during the third quarter of 2009 increased to $11.1 million compared to $7.0 million during the prior year period, primarily due to increased earnings.

Net Income – Net income before discontinued operations was $22.8 million during the third quarter of 2009 compared to $12.1 million in the prior year third quarter, an increase of $10.7 million or 88.2%. Net income per diluted share before discontinued operations was $0.30 on 76,059,594 average diluted shares outstanding during the third quarter of 2009 compared to $0.16 on 76,315,957 average diluted shares outstanding in the prior year period.

During the fourth quarter of 2007, we sold our process services operation for approximately $58.7 million, net of certain adjustments. During the fourth quarter of 2006, we made the decision to discontinue our Venezuelan fluids and production testing businesses due to several factors, including the changing political climate in that country. Net loss from discontinued operations was $0.2 million during the third quarter of 2009 compared to $0.5 million of net loss from discontinued operations during the third quarter of 2008.

Net income was $22.7 million during the third quarter of 2009 compared to $11.7 million in the prior year third quarter, an increase of $11.0 million or 94.4%. Net income per diluted share was $0.30 on 76,059,594 average diluted shares outstanding during the third quarter of 2009 compared to $0.15 on 76,315,957 average diluted shares outstanding in the prior year quarter.

Divisional Comparisons

Fluids Division – Our Fluids Division revenues decreased from $65.4 million during the third quarter of 2008 to $50.9 million during the third quarter of 2009, a $14.5 million decrease, or 22.2%. This decrease was primarily caused by $10.9 million of decreased product sales due to significantly reduced sales volumes for completion fluids and manufactured chemical products compared to the prior year quarter. The decreased completion fluids sales volumes reflect the decreased oil and gas drilling activity, particularly domestically, as reflected in rig count levels compared to the prior year period. In addition, many operators who are continuing drilling activities are deferring completion operations, which further decreases demand for the Division’s completion fluids products. The decrease in manufactured chemicals sales volumes also reflects the general decline in economic conditions which is affecting the activity levels of the Division’s customers. In addition to decreased sales volumes, the Division also received decreased prices for many of its products compared to the prior year period. The Division also reflected $3.4 million of decreased service revenues due to decreased domestic onshore oil and gas activity.

Our Fluids Division gross profit decreased slightly to $10.2 million during the third quarter of 2009 compared to $10.4 million during the prior year period, a decrease of $0.2 million or 2.0%. Gross profit as a percentage of revenue increased to 20.1% during the current year period compared to 16.0% during the prior year period. Gross profit decreased slightly despite the more significant decrease in revenues primarily due to decreased product costs. During March 2009, a major supplier of feedstock raw materials for our Fluids Division, Chemtura Corporation (Chemtura), announced that it had filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy code. As a result of the bankruptcy proceedings, we are in the process of renegotiating certain terms of our supply contracts with Chemtura. While the expected increased cost of the Division’s raw materials could impact its future profitability, this increase may be partially offset by the effect of other contractual modifications being discussed. In addition, the Division's new El Dorado, Arkansas calcium chloride plant facility is expected to begin initial commercial production during the fourth quarter of 2009 and is expected to allow the Division to further decrease its product costs in the future.

Fluids Division income before taxes during the third quarter of 2009 increased $3.9 million to $5.8 million compared to $1.9 million in the corresponding prior year period, an increase of 206.1%. This increase was despite the $0.2 million decrease in gross profit discussed above and was primarily due to approximately $1.9 million of decreased administrative expenses, a $1.4 million legal charge incurred during the prior year period, and approximately $0.8 million of increased other income primarily from foreign currency gains.

Offshore Division – Revenues from our Offshore Division, which was previously known as the Well Abandonment and Decommissioning (WA&D) Division, increased from $127.8 million during the third quarter of 2008 to $163.2 million during the third quarter of 2009, an increase of $35.4 million or 27.7%. Offshore Division gross profit during the third quarter of 2009 increased significantly to $41.1 million compared to $12.3 million during the prior year third quarter, an increase of $28.8 million or 233.4%. Offshore Division income before taxes was $34.2 million during the third quarter of 2009 compared to $11.4 million during the prior year period, an increase of $22.8 million or 201.1%.

The revenues of the Division’s Offshore Services segment increased 55.9% to $131.5 million during the third quarter of 2009 compared to $84.3 million in the prior year third quarter, an increase of $47.1 million. This increase was due to the increased offshore decommissioning activity and vessel utilization during the current year quarter, reflecting the current high demand for the segment’s offshore diving, abandonment, heavy lift, and cutting services. Also, beginning in June 2009, the segment increased its service capacity to its customers through the leasing of a specialized dive service vessel which will be utilized for contracted hurricane recovery work during the remainder of the year. In addition, a portion of the prior year quarter was affected by downtime resulting from Hurricanes Ike and Gustav. Although the activity level for Offshore Services operations is expected to decrease during the winter season, the segment expects demand for services to continue to be strong during 2010. Many Gulf of Mexico oil and gas operators are expected to continue to perform repair and recovery operations over the next several years on offshore properties which were damaged or destroyed by hurricanes during 2005 and 2008 or attempt to accelerate their efforts to abandon and decommission offshore platform facilities in response to risks from future storms and the significantly increased windstorm insurance costs for offshore properties. Many offshore operators, including Maritech, have reduced or discontinued windstorm insurance coverage until premium costs decrease or become justifiable and are seeking to maximize their abandonment and decommissioning activity in order to decrease their risk of future damage. The segment is planning to continue to perform a significant amount of such work for Maritech during the next fifteen months.

The Offshore Services segment of the Division reported gross profit of $45.8 million during the third quarter of 2009 compared to $13.9 million of gross profit during the third quarter of 2008, a $31.9 million or 230.5% increase. The Offshore Services segment’s gross profit as a percentage of revenues was 34.8% during the third quarter of 2009 compared to 16.4% during the prior year period. This increase was primarily due to the increased gross profit of the segment’s heavy lift, diving, and cutting services businesses, which generated significant efficiencies from increased utilization, improved weather conditions, and increased operating efficiency during the current year period. In addition, the segment has consolidated certain office and administrative functions, reduced crews, and temporarily idled selected inland water equipment in order to further increase efficiencies.

Offshore Services segment income before taxes increased from $9.8 million during the third quarter of 2008 to $40.3 million during the current year quarter, an increase of $30.5 million or 311.0%. This increase was due to the $31.9 million increase in gross profit described above and $0.7 million of decreased administrative costs, partially offset by approximately $2.0 million of increased other expenses as a result of a legal settlement during the current year period.

The Division’s Maritech operations reported revenues of $43.3 million during the third quarter of 2009 compared to $51.9 million during the prior year period, a decrease of $8.6 million or 16.5%. Revenues decreased by approximately $5.4 million as a result of decreased realized commodity prices. Maritech has hedged a portion of its expected future production by entering into derivative hedge contracts, with certain contracts extending through 2010. Including the impact from its hedge contracts, Maritech reflected average realized oil and natural gas prices during the third quarter of 2009 of $68.81/barrel and $8.98/MMBtu, respectively, compared to $74.97/barrel and $9.59/MMBtu, respectively, during the prior year period. However, fourth quarter 2009 oil and natural gas prices have risen and are now in excess of the price levels received earlier during the current year. Decreased production volumes resulted in decreased revenues of approximately $3.3 million primarily due to certain properties which continue to be shut-in as a result of Hurricane Ike. In particular, one of Maritech’s key oil producing fields, East Cameron 328, will continue to have a portion of its production shut-in until a new platform can be constructed to replace a platform which was toppled during the storm. However, Maritech has recently installed additional production equipment on the remaining platform in the field in order to restore approximately one half of the field’s production. Much of Maritech’s daily production is processed through neighboring platforms, pipelines, and processing facilities of other operators and third parties, many of which were also damaged during the storm. As a result, an additional portion of Maritech’s production remains shut-in. The decreased production from the shut-in properties more than offset newly added production during the quarter from wells drilled in 2008. The level of Maritech’s drilling and development activity has decreased during 2009 as a result of our efforts to conserve capital. Partially offsetting the decrease in prices and volumes, Maritech reported $0.2 million of increased processing revenue during the current year quarter.

Maritech reported negative gross profit of $5.8 million during the third quarter of 2009 compared to a negative gross profit of $1.3 million during the third quarter of 2008, a decrease of $4.5 million or 352.4%. Although the impact of reduced revenues was partially offset by decreased depletion expenses associated with the decreased production, Maritech's gross profit was also reduced due to approximately $4.1 million of increased repair costs and approximately $4.9 million of increased excess decommissioning costs incurred during the quarter compared to the prior year period. Partially offsetting these decreases, Maritech recorded oil and gas property impairments of approximately $0.6 million during the current year period compared to $10.7 million of impairments and dry hole costs which were recorded during the prior year period. In addition, Maritech recorded $1.7 million of decreased insurance premium expense due to the discontinuance of its insurance coverage for windstorm damage due to the current high premium cost of insurance and the reduced levels of coverage. In October 2009, we entered into a settlement agreement with the parties to our insurance litigation regarding certain costs associated with Maritech offshore platforms which were damaged or destroyed by Hurricanes Katrina and Rita during 2005. As a result of this settlement, we expect to receive proceeds of approximately $40.0 million, which will be credited to earnings during the fourth quarter of 2009.

The Division's Maritech operations reported a pretax loss of $7.2 million during the third quarter of 2009 compared to income before taxes of $1.8 million during the prior year period, a decrease of $9.0 million or 494.6%. This decrease was due to the $4.5 million decrease in gross profit discussed above, plus approximately $4.5 million of decreased other income, primarily due to gains on sales of properties reported in the prior year. These decreases were partially offset by approximately $0.1 million of decreased administrative costs compared to the prior year period.

Production Enhancement Division – Beginning in the fourth quarter of 2008, our Production Enhancement Division consists of two separate reporting segments: the Production Testing segment and the Compressco segment. Production Enhancement Division revenues decreased from $56.1 million during the third quarter of 2008 to $40.0 million during the current year quarter, a decrease of $16.1 million or 28.6%. Production Enhancement Division gross profit decreased from $21.6 million during the third quarter of 2008 to $12.2 million during the current year period, a decrease of $9.3 million or 43.3%. Production Enhancement Division gross profit as a percentage of revenue also decreased from 38.4% during the third quarter of 2008 to 30.5% during the third quarter of 2009. Production Enhancement Division income before taxes decreased during the third quarter of 2009 to $8.1 million, compared to $16.2 million during the third quarter of 2008, a decrease of $8.0 million or 49.7%.

Production Testing revenues decreased dramatically during the third quarter of 2009 to $19.1 million, a $12.3 million decrease from the $31.4 million recorded during the third quarter of 2008. This 39.2% decrease was primarily due to the significant decrease in demand due to decreased drilling activity and an associated decrease in day rates for our services. The Division's Production Testing segment is particularly affected by the activities of its domestic customers, many of whom have significantly decreased activity due to the current economic climate. This decrease was partially offset by slightly increased international revenues, primarily in Mexico and Brazil.

Production Testing gross profit decreased 59.0% during the third quarter of 2009 from $10.5 million during the prior year period to $4.3 million during the current year period, a decrease of $6.2 million. Gross profit as a percentage of revenues also decreased dramatically from 33.5% during the third quarter of 2008 to 22.6% during the third quarter of 2009. This decrease was due to the significantly weaker demand and decreased activity domestically.

Production Testing income before taxes decreased from $8.1 million during the third quarter of 2008 to $2.9 million during the third quarter of 2009, a decrease of $5.3 million or 64.9%. This decrease was due to the $6.2 million decrease in gross profit discussed above and $0.2 million of increased administrative expenses, partially offset by approximately $1.1 million of increased other income, primarily from increased currency gains and increased earnings from unconsolidated joint ventures.

Compressco revenues decreased from $24.7 million during the third quarter of 2008 to $21.0 million during the current year quarter, a $3.8 million or 15.3% decrease. This decrease was due to the decreased utilization of Compressco's GasJack® compressor fleet, as lower natural gas prices and industry economic conditions have resulted in decreased domestic demand for wellhead compression services. In response to the current economic environment, beginning in early 2009, Compressco has temporarily slowed its fabrication of new compressor units until demand for its production enhancement services increases and inventories of available units are reduced. However, Compressco continues to seek new niche opportunities to expand its operations, including additional opportunities in international markets.

Compressco gross profit decreased from $11.0 million during the third quarter of 2008 to $7.9 million during the third quarter of 2009, a decrease of $3.1 million or 28.3%. Gross profit as a percentage of revenues also decreased from 44.6% during the third quarter of 2008 to 37.8% during the current year period. This decrease was due to unabsorbed fabrication overhead as a result of the decreased production of new compressor units and other increased operating expenses for Compressco's dome