

TETRA TECHNOLOGIES INC  
Form DEF 14A  
March 29, 2006

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. \_\_\_\_)**

Filed by the registrant  [ X ]

Filed by a party other than the registrant  [ \_ ]

Check the appropriate box:

- [ \_ ] Preliminary proxy statement.                       [ \_ ] Confidential, for use of the Commission only (as permitted by Rule 14-a6(e)(2)).  
 [ X ] Definitive proxy statement.  
 [ \_ ] Definitive additional materials.  
 [ \_ ] Soliciting material under Rule 14a-12.

**TETRA Technologies, Inc.**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (check the appropriate box):

- [ X ] No Fee required.  
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(4) Date Filed:

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**TETRA Technologies, Inc.**

**25025 Interstate 45 North, Suite 600**

**The Woodlands, Texas 77380**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held May 2, 2006**

To our stockholders:

**Where and When.** We will hold our 2006 Annual Meeting of Stockholders at the Marriott Woodlands Waterway Hotel, 1601 Lake Robbins Drive, The Woodlands, Texas on Tuesday, May 2, 2006, at 11:00 a.m. local time.

**Record Date.** Only stockholders of record at the close of business on March 3, 2006 will be entitled to notice of and to vote at the Annual Meeting.

**Purpose of the Meeting.** We have called the Annual Meeting for the following purposes:

1. To elect three Class I Directors to serve three-year terms ending at the 2009 Annual Meeting of Stockholders (or until the 2007 Annual Meeting of Stockholders if the stockholders approve Proposal 4 below), or until their successors have been duly elected or appointed;
2. To ratify and approve the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2006;
3. To consider and vote upon a proposal to amend our Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 70,000,000 to 100,000,000;
4. To consider and vote upon a proposal to amend our Restated Certificate of Incorporation to declassify the Board of Directors and to allow for the removal of Directors without cause;
5. To consider and vote upon a proposal to adopt the TETRA Technologies, Inc. 2006 Equity Incentive Compensation Plan; and
6. To transact such other business as may properly come before the Annual Meeting or any adjournments.

You will find more information on our nominees for Directors and the other purposes listed above in the attached proxy statement. You will find more instructions on how to vote starting on page 2 of the proxy statement.

**Your vote is important! Please mark, sign, date, and return the enclosed proxy card as soon as possible regardless of whether you plan to attend the Annual Meeting. You may revoke your proxy at any time before it is voted.**

I hope you will be able to attend the Annual Meeting.

Bass C. Wallace, Jr.

Corporate Secretary

March 29, 2006

The Woodlands, Texas

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**TETRA Technologies, Inc.**

**25025 Interstate 45 North, Suite 600**

**The Woodlands, Texas 77380**

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**PROXY STATEMENT**

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*This proxy statement, and the accompanying Notice of the 2006 Annual Meeting of Stockholders and proxy card, are first being mailed to our stockholders on or about March 29, 2006.*

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## VOTING INFORMATION

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### GENERAL INSTRUCTIONS ON HOW TO VOTE YOUR PROXY

Below are instructions on how to vote as well as information on your rights as a stockholder as they relate to voting. Some of the instructions will differ depending on how your stock is held. It is important to follow the instructions that apply to your situation.

**If your shares are held in “street name,”** you should vote your shares in the method directed by your broker or other nominee.

**If you plan to attend the meeting and vote in person,** your instructions will depend on how your shares are held:

- *Shares registered in your name* – check the appropriate box on the enclosed proxy card and bring evidence of your share ownership with you to the meeting. The proxy card and the evidence of your ownership will serve as your authorization to vote in person.
- *Shares registered in the name of your broker or other nominee* – ask your broker to provide you with a broker’s proxy card in your name (which will allow you to vote your shares in person at the meeting) and bring evidence of your stock ownership from your broker with you to the meeting.

Remember that we will limit attendance at the Annual Meeting to stockholders as of the record date (or their authorized representatives) with evidence of their share ownership and our guests.

**How to Revoke Your Proxy.** If your shares are registered in your name, you may revoke your proxy at any time before it is exercised by:

- filing a written notice revoking it with our Corporate Secretary;
- executing and returning another proxy bearing a later date; or
- attending the Annual Meeting and expressing a desire to vote your shares of common stock in person.

If your shares are held in street name, you must contact your broker to revoke your proxy. You must address written notices to Corporate Secretary, TETRA Technologies, Inc., 25025 Interstate 45 North, Suite 600, The Woodlands, Texas, 77380. No revocation by written notice will be effective unless such notice has been received by our Secretary prior to the day of the Annual Meeting or by our inspector of election at the Annual Meeting.

## VOTING RULES

**Stockholders Entitled to Vote – the Record Date.** We have fixed the close of business on March 3, 2006 as the record date for the determination of stockholders entitled to vote at the Annual Meeting and any adjournment(s) thereof. As of the record date, we had issued and outstanding 34,987,597 shares of common stock and no shares of preferred stock.

**Quorum Required.** A quorum must be present at the Annual Meeting for us to conduct business at the Annual Meeting. To establish a quorum, we need the presence, either in person or by proxy, of holders of a majority of the outstanding shares of our common stock as of the record date. We will count abstentions and broker nonvotes to determine whether a quorum is present. Broker nonvotes occur when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power and the nominee has not received voting instructions from the beneficial owner. The New York Stock Exchange (“NYSE”) precludes its member organizations from giving a proxy to vote on equity compensation plans unless the beneficial owner of the shares has given voting instructions. Accordingly, with respect to the 2006 Equity Incentive Compensation Plan, brokers who are NYSE members do not have discretionary authority to vote shares for beneficial owners who do not provide instructions.

**Number of Votes.** You are entitled to one vote per share of our common stock that you own as of the record date on each matter that is called to vote at the Annual Meeting.

**Voting to Elect Directors.** When voting to elect Directors, you have three options:

- vote for all of the three nominees;
- vote for one or more of the nominees, but not all; or
- withhold authority to vote for all of the nominees.

If a quorum is present at the Annual Meeting, the three persons receiving the greatest number of votes will be elected to serve as Directors. Therefore, any shares that are not voted or whose votes are withheld will not influence the outcome of the election of Directors. You may not cumulate your votes for any one of the nominees.

**Voting on Other Matters.** When voting on all other matters, you have three options:

- vote FOR a given proposal;
- vote AGAINST a given proposal; or
- ABSTAIN from voting on a given proposal.

The approval of the amendment to the Restated Certificate of Incorporation to increase the number of authorized shares of common stock requires the approval of a majority of the total number of outstanding shares of common stock. With respect to this proposal, abstentions and broker nonvotes will have the same effect as a vote against this proposal.

The approval of the amendment to the Restated Certificate of Incorporation to declassify the Board of Directors and to allow for the removal of Directors without cause requires the approval of 66 2/3% of the total number of outstanding shares of common stock. With respect to this proposal, abstentions and broker nonvotes will have the same effect as a vote against this proposal.

Each matter other than the election of directors and the approval of the proposed amendments to the Restated Certificate of Incorporation requires the affirmative vote of a majority of the shares having voting power present or represented at the Annual Meeting. For the purpose of determining whether a proposal other than the election of Directors or the proposed amendments to the Restated Certificate of Incorporation has received a majority vote, abstentions will be included in the vote totals

with the result that an abstention will have the same effect as a vote against the proposal. With respect to the approval of auditors, brokers who have not received voting instructions from the beneficial owner have the discretionary authority to vote on this matter. Therefore, broker nonvotes will be included in the vote totals and have the same effect as a vote against this proposal. Brokers do not have discretionary authority to vote on the approval of the 2006 Equity Incentive Compensation Plan. Consequently, broker nonvotes will not be considered in the vote totals for this proposal and will have no effect on the vote.

In addition to the vote required by our bylaws described above, under the NYSE rules, approval of the 2006 Equity Incentive Compensation Plan requires approval by a majority of votes cast on the proposal, provided that the total vote cast on the proposal represents over 50% in interest of all securities entitled to vote on the proposal. The NYSE takes the position that a broker nonvote is not a "vote cast." Accordingly, broker nonvotes have to be subtracted when determining whether the 50% in interest test has been met.

The proxy confers discretionary authority to the persons named in the proxy authorizing those persons to vote, in their discretion, on any other matters properly presented at the Annual Meeting. Our Board of Directors is not currently aware of any such other matters.

**Voting of Proxies with Unmarked Votes.** All proxies that are properly completed, signed, and returned prior to the Annual Meeting will be voted. If you return your proxy with no votes marked, your shares will be voted as follows:

- FOR the election of each of the nominees for Director;
- FOR the appointment of Ernst & Young LLP as our independent registered public accounting firm;
- FOR the amendment of our Restated Certificate of Incorporation increasing the number of authorized shares of common stock;
- FOR the amendment of our Restated Certificate of Incorporation to declassify the Board of Directors and to allow for the removal of Directors without cause; and
- FOR the adoption of the 2006 Equity Incentive Compensation Plan.

It is possible for a proxy to indicate that some of the shares represented are not being voted as to certain proposals. This occurs, for example, when a broker is not permitted to vote on a proposal without instructions from the beneficial owner of the stock. In such a case, the nonvoted shares will be considered in the manner described above.

**Who Counts the Votes.** Votes will be counted by ADP Investor Communication Services.

**Information About the Solicitation of Proxies.** Our Board of Directors is soliciting the proxy accompanying this statement in connection with the Annual Meeting. In addition to the solicitation of proxies by use of this proxy statement, our Directors, officers and employees may solicit the return of proxies by mail, personal interview, telephone or email. Our officers and employees will not receive additional compensation for their solicitation efforts, but they will be reimbursed for any out-of-pocket expenses incurred. Brokerage houses and other custodians, nominees and fiduciaries will be requested, in connection with the stock registered in their names, to forward solicitation materials to the beneficial owners of such stock.

We will pay all costs of preparing, printing, assembling and mailing the Notice of the Annual Meeting, this proxy statement, the enclosed form of proxy card and any additional materials, as well as the cost of forwarding solicitation materials to the beneficial owners of stock and all other costs of solicitation.

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## PROPOSALS

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### **PROPOSAL NO. 1: Election of Directors**

The Nominating and Corporate Governance Committee of the Board of Directors has recommended, and the Board of Directors has nominated and urges you to vote "FOR" the election of the three persons who have been nominated to serve three-year terms as Class I Directors. Each proxy solicited hereby will be so voted unless you specify otherwise in the proxy. A plurality vote is required for the election of Directors in Proposal 1. Accordingly, if a quorum is present at the Annual Meeting, the three persons nominated for election as Directors receiving the greatest numbers of votes will be elected to serve as Directors.

Our Restated Certificate of Incorporation and bylaws divide the Board of Directors into three classes, designated as Class I, Class II and Class III, with respect to terms of office. Each class is elected to serve a three-year term and consists of, as nearly as possible, one third of the members of the entire Board. Currently there are nine members of the Board of Directors. The proxies solicited hereby cannot be voted for more than three nominees.

The term of office of each of the current Class I Directors, Paul D. Coombs, Allen T. McInnes and J. Taft Symonds, expires at the time of the Annual Meeting, or as soon thereafter as their successors are elected or qualified. Messrs. Coombs, McInnes and Symonds have been recommended by the Nominating and Corporate Governance Committee and nominated by the Board to serve additional three-year terms as Class I Directors. Each of the nominees has consented to be named in this Proxy Statement and to serve as a Director, if elected.

If our stockholders approve Proposal 4 to amend our Restated Certificate of Incorporation to declassify the Board of Directors, beginning at the 2007 Annual Meeting of stockholders all Directors will be elected to one-year terms and will stand for reelection annually. To facilitate the transition from classified three-year terms to non-classified one-year terms, each Director whose term would not otherwise expire at the 2007 Annual Meeting of stockholders has agreed to tender his resignation effective immediately prior to the 2007 Annual Meeting of stockholders.

It is intended that the proxies solicited hereby will be voted "FOR" the election of such nominees, unless authority to do so has been withheld. If, at the time of the Annual Meeting, any of the nominees should be unable or decline to serve, the discretionary authority provided in the proxy will enable the proxy holder to vote for a substitute nominee of the Board of Directors. The Board of Directors has no reason to believe that any substitute nominee will be required.

### **Nominees for Director**

The three nominees for election as Class I Directors, whose terms of office as Directors will expire in 2009 if such persons are elected (unless the stockholders approve Proposal 4 to declassify the Board of Directors), are as follows:



<b>Name</b>	<b>Age</b>	<b>Position with us</b>	<b>Year first became a director</b>
Paul D. Coombs	50	Executive Vice President and Director (Class I)	1994
Allen T. McInnes	68	Director (Class I)	1993
J. Taft Symonds	66	Director (Class I)	1981

Biographical summaries of the Class I Directors are set forth below. See “Beneficial Stock Ownership of Certain Stockholders and Management” below for information regarding the number of shares of our common stock owned by each of them.

**Paul D. Coombs** has served as Executive Vice President of Strategic Initiatives since April 2005, and as a member of our Board of Directors since 1994. From May 2001 to April 2005, Mr. Coombs served as our Executive Vice President and Chief Operating Officer. He served as an Executive Vice President from January 1994 to May 2001 and as our Senior Vice President – Oil & Gas from 1987 to 1994. From 1985 to 1987, he served as our General Manager – Oil & Gas. Mr. Coombs has served in numerous other positions for us since 1982.

**Allen T. McInnes** has served as a member of our Board of Directors since 1993. He served as our President and Chief Executive Officer from April 1996 to January 2000. Mr. McInnes currently serves on our Audit Committee and our Nominating and Corporate Governance Committee. He has served as Dean of the Business School of Texas Tech University since September 2001. He has served as Chairman of the Board of TGC Industries, which is involved in the geophysical business, since July 1993. Mr. McInnes has been a director of Chase Packaging Corporation since 1993. Mr. McInnes is a former Executive Vice President and director of Tenneco, Inc., where at various times he had overall corporate-level responsibility for chemicals, minerals, packaging, international development and real estate operations. Mr. McInnes received his B.B.A., M.B.A. and Ph.D. degrees from the University of Texas and he completed the Advanced Management Program at Harvard Business School in 1973.

**J. Taft Symonds** has served as a member of our Board of Directors since 1981 and as our Chairman of the Board since October 1993. Mr. Symonds also serves as a director and a member of the audit and corporate governance committees of the board of directors of Plains All American GP LLC, the general partner of Plains All American Pipeline, L.P., a publicly traded master limited partnership subject to the reporting requirements of the Exchange Act that is engaged in crude oil transportation, terminaling and storage. He has served as Chairman of the Board of Symonds Trust Co., Ltd., a private investment firm, since 1978. Mr. Symonds received his B.A. degree from Stanford University and his M.B.A. from Harvard Business School.

**The Board of Directors recommends that you vote “FOR” the election of each of the above named nominees.**

**PROPOSAL NO. 2: Appointment of Independent Registered Public Accounting Firm**

Proposal 2 requests stockholder approval of the Board of Directors' appointment of the firm of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2006. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting and will have an opportunity to make a statement if they desire and to respond to appropriate questions from those attending that meeting. Ernst & Young LLP have served as our independent auditors since 1981.

Our organizational documents do not require our stockholders to ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm. We are doing so, as we have done in prior years, because we believe it is a matter of good corporate practice. If our stockholders do not ratify the appointment, the Audit Committee may reconsider its selection of the firm as our independent registered public accounting firm for the year ending December 31, 2006, but the Audit Committee may elect to retain the firm.

**The Board of Directors recommends that you vote "FOR" ratification and approval of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the 2006 fiscal year, and proxies returned will be so voted unless contrary instructions are indicated thereon.**

**PROPOSAL NO 3: Approval of an Amendment to our Restated Certificate of Incorporation to Increase the Number of Authorized Shares of Common Stock**

The Board of Directors has approved, and is recommending to our stockholders for approval at the Annual Meeting, an amendment to our Restated Certificate of Incorporation to increase the number of authorized shares of common stock. The proposed amendment would increase the number of authorized shares of common stock from 70,000,000 shares to 100,000,000 shares.

**Proposed Amendment**

Our Restated Certificate of Incorporation, as amended, currently authorizes the issuance of 75,000,000 shares of capital stock, consisting of 70,000,000 shares of common stock, par value of \$.01 per share, and 5,000,000 shares of preferred stock, par value of \$.01 per share. The proposed amendment would increase the total number of authorized shares of common stock from 70,000,000 to 100,000,000 shares. The number of authorized shares of preferred stock would not be affected by the proposed amendment.

If approved, the first sentence of Article FOURTH of our Restated Certificate of Incorporation will be amended to read in its entirety as follows:

FOURTH. The total number of shares of stock that the Corporation shall have authority to issue is 105,000,000, consisting of 5,000,000 shares of Preferred Stock, of the par value of \$.01 per share (hereinafter called "Preferred Stock"), and 100,000,000 shares of Common Stock, of the par value of \$.01 per share (hereinafter called "Common Stock").

The additional shares of our common stock for which authorization is sought will have the same voting rights, the same rights to dividends and distributions, and will be identical in all other respects to the shares of our common stock now authorized.

### **Reasons for the Proposed Amendment**

As of March 3, 2006, approximately 34,987,597 shares of common stock were issued and outstanding and no shares of preferred stock were issued and outstanding, although 1,000,000 shares of preferred stock have been designated as Series One Junior Participating Preferred Stock and are reserved for issuance in connection with our rights agreement. As of March 3, 2006, the Company held 1,073,740 shares of common stock as treasury shares, some of which are used to fund exercises of options pursuant to the 1998 Director Stock Option Plan. Also as of March 3, 2006, approximately 3,929,299 shares of common stock were reserved for issuance pursuant to stock option and employee benefit plans, leaving fewer than 30,009,364 shares of common stock, or approximately 43% percent of the authorized shares of common stock, currently unreserved and available for future use. Under Proposal 5 of this Proxy, we are also asking the stockholders to approve the 2006 Equity Incentive Compensation Plan, which will require us to reserve 650,000 shares of our common stock for issuance under such plan. If the adoption of the 2006 Equity Incentive Compensation Plan is approved, it will further reduce the number of currently authorized shares of common stock which are unreserved and available for future use. Since 2003, we have declared two 3-for-2 splits of the common stock, which were effected in the form of stock dividends. While we have no present intention to undertake any stock split, our ability to do so in the future is limited by the number of currently authorized shares. In addition, we have previously filed with the Securities and Exchange Commission (the "Commission") a shelf registration statement on Form S-4 for the purpose of registering our issuance of securities, including common stock, in connection with potential future acquisitions with an aggregate offering price of up to \$400,000,000. Any issuance of our common stock pursuant to this registration statement in connection with future acquisitions will further reduce the number of shares of common stock which are unreserved and available for future use.

Our Board of Directors believes that increasing the authorized number of shares of our common stock will afford us continued flexibility to issue or reserve shares of our common stock for valid corporate purposes, including acquisitions, financings, incentive compensation and other benefit plans, and further stock dividends or stock splits. Except as may be required in certain cases by law or under the rules of the New York Stock Exchange, the proposed amendment would permit the Board of Directors to issue additional shares of common stock without further action or approval of our stockholders. By authorizing the additional shares now, such shares may be issued without the delay and expense associated with obtaining special stockholder approval each time an opportunity requiring the issuance of shares of our common stock may arise. Such a delay might cause us to lose an opportunity or make it more expensive for us to take advantage of an opportunity. Although the Board of Directors has no present plans to issue any additional shares of common stock, except in connection with our existing stock option and incentive plans, the Board of Directors believes that the proposed increase in the number of authorized shares of common stock is necessary to provide us with the necessary flexibility to pursue corporate opportunities.

### **Possible Effects of the Proposed Amendment**

The authorization of the additional shares of common stock sought by this proposal would not have any immediate dilutive effect upon the proportionate voting power or rights of our existing stockholders; however, to the extent that the additional authorized shares of common stock are issued in the future, such issuance may decrease existing stockholders' percentage equity ownership and, depending upon the price at which they are issued, could be dilutive to existing stockholders and have a negative effect upon the market price of the common stock. Our stockholders do not have preemptive rights, which means they do not have the right to purchase shares in any future issuance of common stock in order to maintain their proportionate ownership of common stock.

The amendment to increase the number of authorized shares of our common stock could have the effect of discouraging or preventing attempts to take over control of our company. For example, in the event of a hostile attempt to take over control of our company, it may be possible for us to impede the attempt by issuing shares of common stock, which would dilute the voting power of the other outstanding shares and increase the potential cost to acquire control of us. The proposed amendment therefore may have the effect of discouraging unsolicited takeover bids and potentially limiting the opportunity for our stockholders to dispose of their shares at a premium which may otherwise be available in a takeover attempt or merger proposal. To the extent that it impedes any such attempts, the proposed amendment may serve to perpetuate our current management, including the Board of Directors. The amendment is not being proposed in response to any known effort or threat to acquire control of our company and is not part of a plan by management to adopt a series of amendments to our Restated Certificate of Incorporation and bylaws having an anti-takeover effect.

If the proposed amendment is adopted, it will become effective upon filing of a Certificate of Amendment to our Restated Certificate of Incorporation with the Secretary of State of Delaware.

#### **Recommendation**

**The Board of Directors recommends that you vote “FOR” the proposed amendment to our Restated Certificate of Incorporation to increase the number of authorized shares of common stock, and proxies returned will be so voted unless contrary instructions are indicated thereon.**

#### **PROPOSAL NO. 4: Approval of Amendments to our Restated Certificate of Incorporation to Declassify the Board of Directors and to Allow for the Removal of Directors Without Cause**

Article SEVENTH of our Restated Certificate of Incorporation provides that the Board of Directors shall be divided into three classes, as nearly equal in number as possible, with members of each class serving three-year terms. In addition, Article SEVENTH also provides that, generally, Directors may be removed from the Board of Directors only for cause by the affirmative vote of the holders of at least 66 2/3% of our common stock. Our classified board structure and this system for electing and removing Directors was adopted in 1990, prior to our becoming a publicly traded company. To implement the annual election of Directors or to change the manner in which Directors can be removed from the Board of Directors, our Restated Certificate of Incorporation must be amended. This amendment requires approval by the affirmative vote of the holders of at least 66 2/3% of our common stock. In addition to the amendment to our Restated Certificate of Incorporation, conforming changes to our bylaws must also be made to make them consistent with the proposed amendments to our Restated Certificate of Incorporation. Upon approval of this Proposal 4 by our stockholders, the Board of Directors will adopt conforming amendments to our bylaws.

The Board of Directors has unanimously adopted resolutions, subject to stockholder approval, approving and declaring the advisability of amendments to Article SEVENTH of our Restated Certificate of Incorporation which would declassify the Board of Directors and allow the holders of a majority of our common stock to remove a Director with or without cause. This proposal would allow for the annual election of all Directors in the manner described below. The Board of Directors has previously set the number of Directors at nine. The proposal will not change the present number of Directors, and the Directors will retain authority to change that number and to fill any vacancies or newly created directorships.

Classified or staggered boards have been widely adopted and have a long history in corporate law. Proponents of classified boards assert that they promote the independence of directors because directors elected for multi-year terms are less subject to outside influence. Proponents of a classified board also believe it provides continuity and stability in the management of the business and affairs of

a company because a majority of directors always have prior experience as directors of the company. Proponents further assert that classified boards may enhance stockholder value by forcing an entity seeking control of a target company to initiate arm's-length discussions with the board of a target company because the potential acquirer is unable to replace the entire board in a single election. On the other hand, some investors view classified boards as having the effect of reducing the accountability of directors to stockholders because classified boards limit the ability of stockholders to evaluate and elect all directors on an annual basis. The election of directors is the primary means for stockholders to influence corporate governance policies and to hold the management accountable for implementing those policies. In addition, opponents of classified boards assert that a staggered structure for the election of directors may discourage proxy contests in which stockholders have an opportunity to vote for a competing slate of nominees and, therefore, may erode stockholder value.

The Nominating and Corporate Governance Committee and the Board of Directors are committed to good corporate governance. Accordingly, the Nominating and Corporate Governance Committee and the Board of Directors have previously considered carefully the advantages and disadvantages of maintaining a classified board structure, and in the past concluded that it would be in our best interests and the best interests of our stockholders to maintain the classified board. In 2005, the Board of Directors requested that the Nominating and Corporate Governance Committee again consider the various positions for and against a classified board, particularly in light of evolving corporate governance practices and investor sentiment. The Board of Directors recognizes that annual elections are in line with emerging practices in the area of corporate governance, as they provide stockholders the opportunity to register their views on the performance of the entire Board of Directors each year. The Nominating and Corporate Governance Committee consulted management and the Company's outside advisors when it considered the various positions for and against a classified board. Based upon the analysis and recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has decided that it is an appropriate time to propose declassifying the Board of Directors. This determination by the Board of Directors furthers its goal of ensuring that the Company's corporate governance policies maximize management accountability to stockholders and would, if adopted, allow stockholders the opportunity each year to more effectively register their views on the performance of the Board of Directors.

Under Delaware corporate law, directors of companies that have a classified board structure may be removed only for cause unless their certificate of incorporation provides otherwise. However, directors of companies that do not have a classified structure may be removed with or without cause by a majority vote of the stockholders at any annual or special meeting of stockholders. Accordingly, in conjunction with our proposal to declassify our Board of Directors, we are proposing to amend our Restated Certificate of Incorporation to eliminate the provision that allows stockholders to remove our Directors only for cause. We are also proposing additional conforming changes to our Restated Certificate of Incorporation which are reflected in the proposed amendments set forth in Appendix A.

The Board of Directors has unanimously approved the proposed amendment declassifying the organization of the Board of Directors and eliminating the provision that allows stockholders to remove Directors only for cause. If the proposed amendment is approved, our Restated Certificate of Incorporation will be amended to allow for the annual election of all Directors commencing with our Annual Meeting of stockholders in 2007 and to allow the holders of a majority of our common stock, following our 2007 Annual Meeting of stockholders, to remove Directors with or without cause.

In order to facilitate the transition from classified three-year terms to non-classified one-year terms, each Director whose term would not otherwise expire at the 2007 Annual Meeting of stockholders has agreed to tender his resignation effective immediately prior to the 2007 Annual Meeting. Beginning with the 2007 Annual Meeting of stockholders, all Directors would be elected for one-year terms and the holders of a majority of our common stock would be entitled to remove Directors with or without cause. In addition, if Proposal 4 is adopted, any Director appointed by the Board of Directors as a result of a newly created directorship or to fill a vacancy on the Board of Directors would hold office until the next annual meeting.

The proposed amendments contemplated by Proposal 4 to our Restated Certificate of Incorporation are set forth in Appendix A, and we have shown the changes to our Restated Certificate of Incorporation resulting from the amendments, with deletions indicated by strikeouts and additions indicated by underlining. If approved, Proposal 4 will become effective upon the filing of a Certificate of Amendment to our Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, which the Company would do promptly after the Annual Meeting. At that time, the conforming amendments to the Company's bylaws would also become effective.

**The Board of Directors recommends that you vote "FOR" the proposed amendments to our Restated Certificate of Incorporation to declassify the Board of Directors and to allow for the removal of Directors without cause, and proxies returned will be so voted, unless contrary instructions are indicated thereon.**

**PROPOSAL NO. 5: Adoption of our 2006 Equity Incentive Compensation Plan**

Our stockholders are being asked to consider and vote on a proposal to adopt the TETRA Technologies, Inc. 2006 Equity Incentive Compensation Plan, referred to in this description as the Plan. If the Plan is approved by our stockholders, it will supplement the Company's existing stock option plans, which are the 1990 Stock Option Plan, as amended (under which options are outstanding but no further options may be granted), the 1996 Stock Option Plan for Nonexecutive Employees and Consultants, the Director Stock Option Plan, as amended (the "Director Plan"), and the 1998 Director Stock Option Plan, as amended and restated (the "1998 Director Plan"), and provide us with more flexibility in creating incentives for our employees, officers and Directors. The Company's existing stock option plans will remain in effect in accordance with their terms if the Plan is approved by our stockholders; although no new options will be granted under any of the existing plans if the Plan is adopted by our stockholders as set forth herein.

The Plan was adopted by our Board of Directors, subject to the approval of our stockholders. Pursuant to our bylaws, approval of the Plan requires the affirmative vote of a majority of the common shares represented in person or by proxy at the annual meeting of stockholders and entitled to vote on the proposal. In addition, under the rules of the NYSE, approval of the Plan requires approval by a majority of votes cast on the proposal, provided that the total votes cast on the proposal represents over 50% in interest of all securities entitled to vote on the proposal. If the stockholders approve the Plan, it will be effective as of May 2, 2006. A copy of the Plan is attached to this proxy statement as Appendix B. The description of the Plan contained herein is not intended to be complete and is qualified by reference to Appendix B, which contains the complete text of the Plan.

**Equity Philosophy**

Our equity compensation philosophy is to pay for performance through competitive compensation programs that relate directly to our short and long-term goals and to reward executives, managers and professionals who achieve these goals, while at the same time remaining sensitive to the potential impact upon our other stockholders. Stock based awards linked to our short and long-term goals provide a significant incentive to the Company's employees for improved performance, and we believe equity awards are critical to attracting and retaining employees who are vital to our development and financial success, while also aligning the employees' interests with those of the Company's stockholders.

In connection with our equity-based compensation programs, we seek to balance our need to attract and retain employees with efforts to closely monitor and reduce our "burn rate," which is the total number of equity awards granted in a given year divided by the number of common shares outstanding at the end of such year. Our three-year average burn rate for 2003 through 2005 is 3.0%. If the 2006 Equity Compensation Plan is approved by stockholders, the selection of employees, consultants and non-employee directors who will receive awards under the Plan and the amount of any such awards will be determined by the Management and Compensation Committee (the "Compensation Committee") in its discretion. However, we have committed not to exceed, for each of the periods extending from 2004 through 2006, 2005 through 2007 and 2006 through 2008, a prospective three-year average burn rate of 2.5% (the three year average burn rate is the sum of three years, divided by three), which is the maximum burn threshold (one standard deviation above the mean burn rate of our peer group) announced by Institutional Shareholder Services in its 2006 policy updates.

We strongly believe that our equity compensation philosophy has been a key component of our past success and will be equally important in the years ahead. Accordingly, approval of the 2006 Equity Compensation Plan is critical to our ability to attract, retain and reward the caliber of employees necessary to continued achievement of superior performance.

### **Summary of Material Features of the Plan**

The following is intended to be a summary of the key features of the Plan. The full text of the Plan is attached to this proxy statement as Appendix B for your reference.

The purposes of the Plan are to:

- promote our interests and the interests of our stockholders by encouraging the participants to acquire or increase their equity interest in us, thereby giving them an added incentive to work toward our continued growth and success;
- enable us to compete for the services of the individuals needed for our continued growth and success; and
- allow us to award incentive grants of equity awards that are less dilutive to our stockholders than the stock options that have traditionally been awarded under our stock option plans.

To accomplish these purposes, the Plan provides for the grant to eligible persons of stock options, restricted stock, bonus stock, stock appreciation rights, and performance awards (collectively "Awards").

Key features of the Plan include:

- The Plan is administered by the Compensation Committee, which has authority to (i) determine the nature, amount, terms and conditions of the grants, and (ii) interpret and determine any and all matters relating to the administration of the Plan and the award grants.
- The maximum number of shares of our common stock authorized under the Plan is 650,000 shares, or approximately 2% of our outstanding shares.
- At the time of grant, the exercise price of any option cannot be less than the fair market value of our common stock as of the date of grant.
- Stock options and stock appreciation rights cannot be repriced without the approval of our stockholders. The Plan requires stockholder approval for any material Plan amendments in accordance with the New York Stock Exchange rules.

### **Available Shares**

The maximum number of shares of common stock that may be covered by Awards granted under the Plan shall be 650,000 shares, subject to adjustment in the event of stock splits and certain other corporate events. For purposes of implementing the limitation on the maximum number of shares of common stock that may be covered by Awards granted under the Plan, an Award of an option or a stock appreciation right in respect of one share of common stock shall be deemed to be an Award of one share of common stock and an Award of a share of bonus stock or restricted stock shall be deemed to be an Award of two shares of common stock. With respect to any performance award, the value of the maximum benefit that may be paid under the performance award shall be divided by the fair market value per share of common stock as of the date of grant of the performance award, and each share resulting from such computation shall be deemed to be an Award of two shares of common stock. In addition, during any calendar year, the number of shares of common stock reserved for issuance under the Plan which are subject to Awards that may be granted to any one participant shall not exceed 100,000 shares, subject to adjustment in the event of stock splits and certain other corporate events. To the extent shares cease to be issuable under an Award made under the Plan, they will be available under the Plan for the grant of additional Awards unless such shares cease to be subject to an Award because of the exercise of the Award or the vesting of a restricted stock award or similar Award.

### **Persons Eligible to Participate**

Except with respect to Awards of incentive stock options, all employees, consultants and non-employee Directors of us and our affiliates are eligible to participate in the Plan. Incentive stock options may be awarded only to employees. In selecting employees, consultants and non-employee Directors to receive Awards, including the type and size of the Award, the Compensation Committee may consider any factors that it deems relevant.

### **Administration**

The Plan will be administered by the Compensation Committee, which consists of three or more Directors appointed by the Board of Directors. The members of the Compensation Committee as of the date of this proxy statement are Messrs. Ammidon, Delimitros, Mitchell and White (as Chairman). Our Board of Directors has determined that each of these Directors is an "independent" Director as defined under the rules of the NYSE. No person shall be eligible to serve on the Compensation Committee unless such person is a "non-employee Director" as defined in Rule 16b-3 promulgated under the Exchange Act, as then in effect, and also an "outside Director" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and the rules and regulations thereunder. Subject to the provisions of the Plan, the Compensation Committee will (i) interpret the Plan and all Awards under the Plan, (ii) make rules as it deems necessary for the proper administration of the Plan, (iii) make all other determinations necessary or advisable for the administration of the Plan and (iv) correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award under the Plan in the manner and to the extent that it deems desirable to effectuate the Plan. Any action taken or determination made by the Compensation Committee pursuant to the Plan will be binding on all parties. No member of the Board of Directors or the Compensation Committee will be liable for any action or determination made in good faith with respect to the Plan or an Award granted thereunder.



## Types of Awards

The Plan provides for the grant of any or all of the following types of Awards: (i) stock options, including incentive stock options and nonqualified stock options; (ii) restricted stock; (iii) bonus stock; (iv) stock appreciation rights; and (v) performance awards. All Awards will be evidenced by a written agreement and the terms, conditions and/or restrictions contained in an Award may differ from the terms, conditions and/or restrictions contained in any other Award. Each type of Award is discussed in more detail below.

*Stock Options.* The Compensation Committee has the authority to grant options, in such form as the Compensation Committee may from time to time approve, subject to the terms of the Plan. The Compensation Committee also has the authority to determine whether options granted to employees will be incentive stock options or nonqualified options.

To exercise an option granted under the Plan, the person entitled to exercise the option must deliver to us payment in full of the exercise price for the shares being purchased, together with any required withholding tax unless other arrangements have been made with the Compensation Committee. The payment must be (i) in cash or check, (ii) with the consent of the Compensation Committee, in shares of common stock already owned by the person for more than six months, or (iii) with the consent of the Compensation Committee and in compliance with such instructions as the Committee may specify, by sale through a broker. The value (the "Fair Market Value") of each share of common stock delivered as payment of the exercise price on any given date will be deemed to be equal to the closing price on the principal exchange or over-the-counter market on which such shares are trading.

Except as described below, no option may be exercised later than the date which is ten years after the date of grant. The exercise price at which shares of common stock may be purchased upon the exercise of an option shall not be less than the Fair Market Value on the date of the grant of the option. In the case of incentive stock options granted to employees owning more than ten percent (10%) of the total combined voting power of us and our affiliates, the exercise price at which shares of common stock may be purchased upon the exercise of such incentive option shall be equal to one hundred ten percent (110%) of the Fair Market Value per share of common stock at the time of the grant and such incentive option may not be exercised later than five years after the date of grant. The aggregate fair market value (determined as of the respective date or dates of grant) of shares of common stock for which one or more options granted to any employee under the Plan (or any other option plan of ours or our affiliates) may for the first time become exercisable as incentive stock options during any one calendar year cannot exceed \$100,000.

The exercise price for and the number of shares of common stock subject to existing options shall be subject to appropriate adjustments in the event that the outstanding shares of our common stock are changed into or exchanged for a different number or kind of shares or other securities by reason of merger, consolidation, recapitalization, reclassification, stock split, stock dividend, combination of shares or the like. The Plan does not permit the Compensation Committee to reprice options or accelerate the vesting of options without stockholder approval. The Compensation Committee shall provide, in the option grant, the time or times at which the options will be exercisable.

*Restricted Stock Awards.* The Plan authorizes the Compensation Committee to grant Awards in the form of restricted shares of common stock. These Awards are subject to such restrictions as the Compensation Committee may impose, including forfeiture, transfer and repurchase restrictions, and in no event will the term of any such Award exceed ten years. We have the right to repurchase restricted shares for the amount of cash paid for such shares, if any, if the participant terminates employment with or services to us prior to the lapse of such restrictions or the restricted stock is forfeited by the participant in accordance with the Award thereof.

*Bonus Stock.* The Compensation Committee has the authority to grant shares of our common stock as “bonus stock” to employees, consultants and non-employee Directors of us or our affiliates for the performance of services by such individuals without additional consideration, except as may be required by the Compensation Committee.

*Stock Appreciation Rights.* The Compensation Committee may grant stock appreciation rights (rights to receive the excess of the Fair Market Value of the common stock on the date of exercise over the Fair Market Value of the common stock as of the date of grant), in shares of common stock. The Compensation Committee may provide that the excess may not exceed a specified amount. The Compensation Committee shall determine, at the date of grant, the time or times at which and the circumstances under which a stock appreciation right may be exercised. The term of such Award may not exceed ten years.

*Performance Awards.* The Plan authorizes the Compensation Committee to grant shares of common stock to participants upon the attainment of certain performance goals measured over a period of not less than three months or more than five years. After the end of each performance period, the Compensation Committee will determine the amount, if any, of performance awards payable to each participant based upon the achievement of certain established business criteria. In the case of any Award granted to our Chief Executive Officer or any of our four highest paid officers (other than the Chief Executive Officer), the performance goals will be objective and meet the requirements of Section 162(m) of the Code, and regulations thereunder, including the requirement that achievement of performance goals be substantially uncertain at the time of grant. It is our intent that performance awards granted to covered employees will constitute performance based compensation within the meaning of Section 162(m) of the Code and the regulations thereunder.

The performance goals may differ among Awards or participants; however, the Compensation Committee may not exercise discretion to increase any amount payable under a performance award intended to comply with Section 162(m) of the Code. In establishing performance goals, the Compensation Committee may use one or more of the following business criteria on a consolidated basis or for our specified subsidiaries, divisions or business units: (i) earnings per share; (ii) increase in price per share; (iii) increase in revenues; (iv) increase in cash flow; (v) return on net assets; (vi) return on assets; (vii) return on investment; (viii) return on equity; (ix) economic value added; (x) gross margin; (xi) net income; (xii) pretax earnings; (xiii) pretax earnings before interest, depreciation, depletion and amortization; (xiv) pretax operating earnings after interest expense and before incentives, service fees, and extraordinary or special items; (xv) operating income; (xvi) total stockholder return; (xvii) debt reduction; and (xviii) any of the above goals determined on an absolute or relative basis or as compared to the performance of a published or special index deemed applicable by the Compensation Committee, including, but not limited to, a market index or a group of comparable companies.

The amount payable under a performance award shall be divided by the Fair Market Value per share of common stock on the determination date, and a stock certificate evidencing the resulting shares of common stock (to the nearest full share) shall be delivered to the participant or his personal representative, and the value of any fractional shares will be paid in cash.

#### **Transferability**

Except as otherwise provided in the Plan, no Award and no right under the Plan, other than bonus stock or restricted stock as to which restrictions have lapsed is (i) assignable, saleable or transferable by a participant, or (ii) subject to any encumbrance, pledge or charge of any nature. Any attempted transfer in violation of the Plan will be void and ineffective for all purposes. The Compensation Committee may, however, establish rules and procedures to allow the transfer of specific nonqualified stock options for estate planning purposes to one or more immediate family members or related family trusts or partnerships or similar entities.

### **Change in Control**

Unless otherwise provided in an Award, upon the occurrence of a change in control (defined generally as certain reorganizations, mergers, consolidations, sales of all or substantially all of our assets or liquidations), the Compensation Committee may, but is not required to, (i) accelerate vesting and the time at which all options and stock appreciation rights then outstanding may be exercised; (ii) waive all restrictions and conditions of all restricted stock then outstanding; or (iii) determine to amend performance awards or substitute new performance awards in consideration of the cancellation of outstanding performance awards.

If approved by our Board of Directors prior to or within 30 days after a change in control, the Board of Directors will have the right for the 45-day period following the change in control to require all participants to transfer to us all Awards previously granted to the participants in exchange for an amount equal to the cash value of the Awards. The cash value of an Award will equal the sum of (i) the cash value of all benefits to which the participant would be entitled upon settlement or exercise of any Award which is not an option or restricted stock and (ii) in the case of an option or restricted stock, the excess of the market value per share over the option price, or the market value per share of restricted stock, multiplied by the number of shares as to which such Award is vested.

### **Termination, Death, Disability and Retirement**

Unless otherwise provided for in an Award, if the employment of an employee or service of a non-employee Director is terminated for any reason other than death, disability or retirement, or if service of a consultant is terminated for any reason other than death, any nonvested Award outstanding at the time of such termination will terminate, no further vesting will occur, and the participant will be entitled to exercise his or her exercise rights with respect to any portion of the Award which is vested until the earlier of (i) the expiration date set forth in the Award or (ii) three months after the termination date.

Unless otherwise provided for in an Award, upon the retirement of an employee or non-employee Director, any nonvested portion of an outstanding Award will terminate and no further vesting will occur. Any exercise rights with respect to any vested Award will expire on the earlier of (i) the expiration date set forth in the Award or (ii) 12 months after the date of retirement.

Unless otherwise provided for in an Award, (i) upon the termination due to the disability of an employee or non-employee Director, (ii) upon the death of a participant, (iii) with respect to a participant who is either a retired former employee or non-employee Director who dies during the period in which he or she can exercise any vested Award (the "applicable retirement period") or (iv) with respect to a disabled former employee or non-employee Director who dies during the period that expires on the earlier of the expiration date set forth in any applicable outstanding Award or the first anniversary of the person's termination due to disability (the "applicable disability period"), any nonvested portion of an outstanding Award that has not already terminated will terminate and no further vesting will occur. In addition, any exercise rights with respect to any vested Award will expire on the earlier of (i) the expiration date set forth in the Award or (ii) the later of (x) the first anniversary of such termination due to death or disability or (y) the first anniversary of such person's death during the applicable retirement period (except in the case of an incentive stock option) or the applicable disability period.

The Compensation Committee may provide for the continuation of any Award for such period and upon such terms as it determines in the event the participant ceases to be an employee, consultant or non-employee Director.

### **Adjustments Upon Changes in Capitalization or Reorganization**

The type or number of shares authorized under the Plan or subject to an Award and/or the exercise or purchase price applicable to an Award will be appropriately adjusted in the event of a subdivision or consolidation of shares, payment of stock dividend or any other increase or decrease in the number of shares effected without receipt of consideration by us, or in the event of a reorganization, merger, consolidation or recapitalization. Such adjustments shall be made by the Compensation Committee, whose determination shall be final and binding.

### **Amendment or Termination of the Plan and Amendment of Awards**

Except with respect to Awards then outstanding, if not sooner terminated by the Board of Directors, the Plan will terminate upon, and no further Awards shall be made, after the second anniversary of the date the Plan is approved by the stockholders. The Board of Directors may amend, suspend or terminate the Plan, provided, however, that no amendment, suspension or termination of the Plan may, without the consent of the holder of an Award, terminate such Award or adversely affect such person's rights in any material respect. Moreover, no amendment to the Plan will be effective prior to its approval by the stockholders to the extent that (i) it would provide or accelerate vesting other than in connection with a change in control, or would change stockholder approval requirements relating to option repricing or (ii) such approval is required by applicable law, the requirements of any securities exchange on which our stock may be listed, or the requirements of the NASDAQ Stock Market, Inc. on which our stock may be listed. The Board of Directors may, however, amend the Plan as necessary to permit Awards to meet the requirements of the Code or other applicable laws, or to prevent adverse tax consequences to participants.

Subject to the restrictions set forth in the Plan, the Compensation Committee may amend any outstanding Award and may waive or accelerate any requirement or condition that is not mandatory under the Plan; however, except in the case of a change in control, the Compensation Committee may not waive or accelerate any term or condition of an Award that is intended to qualify as performance based compensation for purposes of Section 162(m) of the Code, if such action would cause the Award not to so qualify. The Compensation Committee may not amend any outstanding Award in a manner that would adversely affect, in any material respect, the rights of a Plan participant without such participant's consent.

### **New Plan Benefits**

No Awards have been granted to date under the Plan, although it is anticipated that Awards will be granted if the Plan is approved by our stockholders. The actual amount of Awards to be granted under the Plan is not determinable in advance because the size and type of Awards to be made in any year will be determined at the discretion of the Compensation Committee. Additionally, the specific performance criteria and targets will be selected each year by the Compensation Committee.

### **Federal Income Tax Consequences of the Plan**

*In General.* The Plan is not intended to be subject to any provision of the Employee Retirement Income Security Act of 1974, as amended, and is not qualified under Section 401(a) of the Code. The following summary is based on the applicable provisions of the Code, as currently in effect, and the income tax regulations and proposed income tax regulations issued thereunder.

*Status of Options.* Options granted under the Plan may be either incentive stock options or nonqualified stock options. Under certain circumstances, an incentive stock option may be treated as a nonqualified stock option. The tax consequences, both to the option holder and to us, differ depending on whether an option is an incentive stock option or a nonqualified stock option.

*Nonqualified Options.* No federal income tax is imposed on the option holder upon the grant of a nonqualified stock option. Upon the exercise of a nonqualified stock option, the option holder will be treated as receiving compensation, taxable as ordinary income and subject to employment taxes in the year of exercise. The amount recognized as ordinary income and subject to employment taxes upon exercise is the excess of the fair market value of the shares of common stock at the time of exercise over the exercise price paid for such common stock. At the time common stock received upon exercise of a nonqualified stock option is disposed of, any difference between the fair market value of the shares of common stock at the time of exercise and the amount realized on the disposition will be treated as a capital gain or loss. The gain, if any, realized upon such a disposition will be treated as a long-term or short-term capital gain, depending on the holding period of the shares of common stock. Any loss realized upon such a disposition will be treated as a long-term or short-term capital loss, depending on the holding period of the shares of common stock.

Upon an option holder's exercise of a nonqualified stock option, and subject to the application of Section 162(m) of the Code as discussed below, we may claim a deduction for the compensation paid at the same time and in the same amount as compensation is treated as being received by the option holder, assuming we satisfy the federal income tax reporting requirements with respect to such compensation. We are not entitled to any tax deduction in connection with a subsequent disposition by the option holder of the shares of common stock.

If the shares of common stock received upon the exercise of a nonqualified stock option are transferred to the option holder, subject to certain restrictions, then the taxable income realized by the option holder, unless the option holder elects otherwise, and our tax deduction (assuming any federal income tax reporting requirements are satisfied) should be deferred and should be measured with reference to the fair market value of the shares at the time the restrictions lapse. The restriction imposed on officers, Directors and 10% stockholders by Section 16(b) of the Exchange Act is such a restriction during the period prescribed thereby if other shares have been purchased by such an individual within six (6) months of the exercise of a nonqualified stock option.

*Incentive Stock Options.* No federal income tax is imposed on the option holder upon the grant of an incentive stock option. The option holder will recognize no taxable income upon exercise of an incentive stock option if the option holder (a) does not dispose of the shares of common stock acquired pursuant to the exercise of an incentive stock option within two years from the date the option was granted or within one year after the shares of common stock were transferred to the option holder (the "Holding Period") and (b) is an employee of either (i) the company granting the option, (ii) the parent company or a subsidiary of such corporation or (iii) a corporation which has assumed such option of another corporation as a result of a corporate reorganization, merger or similar transaction. Such employment must continue for the entire time from the date the option was granted until three months before the date of exercise, or 12 months before the date of exercise if employment ceases due to permanent and total disability. If common stock received upon exercise of an incentive stock option is disposed of after completion of the Holding Period, any difference between the exercise price paid for such common stock and the amount realized on the disposition will be treated as a capital gain or loss. The gain, if any, realized upon such a disposition will be treated as a long-term capital gain. Any loss realized upon such a disposition will be treated as a long-term capital loss. We would not be entitled to any deduction in connection with the grant or exercise of the option or the disposition of the shares of common stock so acquired.

If, however, an option holder disposes of shares of common stock acquired pursuant to exercise of an incentive stock option before the Holding Period has expired (a "Disqualifying Disposition"), the option holder would be treated as having received, at the time of disposition, compensation taxable as ordinary income. In such event, subject to the application of Section 162(m) of the Code, as discussed below, we may claim a deduction for compensation paid at the same time and in the same amount as compensation is treated as being received by the option holder. The amount treated as compensation is the lesser of (i) the excess of the fair market value of the common

stock at the time of exercise over the exercise price or (ii) the excess of the amount realized on disposition over the exercise price. The balance of the gain, if any, realized upon such a disposition will be treated as a long-term or short-term capital gain depending on the holding period. If the amount realized at the time of the disposition is less than the exercise price, the option holder will not be required to treat any amount as ordinary income, provided that the disposition is of a type that would give rise to a recognizable loss. In such event, the loss will be treated as a long-term or short-term capital loss depending upon the holding period. A disposition generally includes a sale, exchange or gift, but does not include certain other transfers, such as by reason of death or a pledge or exchange of shares described in Section 424(c) of the Code.

*Alternative Minimum Tax.* Although the exercise of an incentive stock option does not result in current taxable income, there are implications with regard to the Alternative Minimum Tax ("AMT"). The excess of the fair market value of shares of common stock acquired upon exercise of an incentive stock option over the exercise price paid for such shares of common stock is an adjustment to AMT income for the option holder's taxable year in which such exercise occurs (unless the shares of common stock are disposed of in the same taxable year and the amount realized is less than the fair market value of the shares on the date of exercise, in which event the amount included in AMT income will not exceed the amount realized on the disposition over the adjusted basis of the shares).

*Payment of Option Price in Shares.* In the case of a nonqualified option, if the option price is paid by the delivery of shares of common stock previously acquired by the option holder having a fair market value equal to the option price ("Previously Acquired Shares"), no gain or loss would be recognized on the exchange of the Previously Acquired Shares for a like number of shares of common stock. The option holder's basis and holding period in the number of shares of common stock received (to the extent equal to the number of Previously Acquired Shares used) would be the same as his or her basis and holding period in the Previously Acquired Shares used. The option holder would treat the fair market value of the number of shares of common stock received in excess of the number of Previously Acquired Shares used as ordinary compensation income. The option holder's basis in such excess shares of common stock would be equal to the shares' fair market value at the time of exercise. The option holder's holding period in such excess shares of common stock begins on the date the option holder acquires those shares of common stock.

In the case of an incentive stock option, the federal income tax consequences to the option holder of the payment of the option price with Previously Acquired Shares depends on the nature of the Previously Acquired Shares. If the Previously Acquired Shares were acquired through the exercise of a qualified stock option, an incentive stock option, or an option granted under an employee stock purchase plan ("Statutory Option") and if such Previously Acquired Shares are being transferred prior to expiration of the applicable Holding Period, the transfer would be treated as a Disqualifying Disposition of the Previously Acquired Shares. If the Previously Acquired Shares were acquired other than pursuant to the exercise of a Statutory Option, or were acquired pursuant to the exercise of a Statutory Option but have been held for the applicable Holding Period, no gain or loss should be recognized on the exchange of the Previously Acquired Shares. In either case, (i) the option holder's basis and holding period in the number of shares of common stock received (to the extent equal to the number of Previously Acquired Shares used) would be the same as his or her basis and holding period in the Previously Acquired Shares used, increased by any income recognized to the option holder upon the Disqualifying Disposition of the Previously Acquired Shares, (ii) the option holder's basis in the number of shares of common stock received in excess of the number of Previously Acquired Shares used would be zero, (iii) the option holder's holding period in such excess shares of common stock begins on the date the option holder acquires those shares of common stock, and (iv) the other incentive stock option rules would apply. Upon a subsequent Disqualifying Disposition of the shares of common stock so received, the shares with the lowest basis would be treated as disposed of first.

*Restricted Stock.* A participant who has been granted an Award of restricted stock will not realize taxable income at the time of the Award, and we will not be entitled to a tax deduction at the time of the Award, unless the participant makes an election to be taxed at the time of the Award. When the restrictions lapse without an election by the participant to be taxed at the time of the Award, the participant will receive taxable income in an amount equal to the excess of the market value of the shares at such time over the amount, if any, paid for such shares. We will be entitled to a corresponding tax deduction assuming any federal income tax reporting requirements are satisfied.

*Bonus Stock.* In general, a person will treat the fair market value of bonus stock Awards on the date such amount is received as compensation, taxable as ordinary income and subject to employment taxes. Subject to the application of Section 162(m) of the Code, as discussed below, we will be entitled to a deduction for the corresponding amount, assuming any federal income tax reporting requirements are satisfied.

*Stock Appreciation Rights.* Upon receipt of stock pursuant to the exercise of a stock appreciation right, the fair market value of the stock received is included in taxable income at the time the stock is received. Subject to Section 162(m) of the Code, described below, we will be entitled to a deduction at the same time and in the same amount as the income recognized by the Plan participant.

*Performance Awards.* In general, a participant who receives a performance award will not be taxed on receipt of the Award; instead, the fair market value of the common stock received will be taxable as ordinary compensation income with respect to a performance award, on the date that the shares of common stock cease to be subject to forfeiture. Subject to the application of Section 162(m) of the Code, as discussed below, we will be entitled to a deduction for a corresponding amount. A grantee of a performance award may elect to recognize ordinary income at the time the stock is received by making an election under Section 83(b) of the Code, with the Internal Revenue Service within thirty (30) days of the transfer of such shares. If such election is filed, the grantee will not recognize income when the restrictions lapse, and any subsequent disposition of the shares will result in a capital gain or loss. If, upon a taxable disposition of the shares of common stock, the grantee receives proceeds of more or less than his or her basis in the shares of common stock, any gain will be a long-term or short-term capital gain, and any loss will be a long-term or short-term capital loss, depending on the holding period of the shares of common stock, measured (i) from the date that the shares of common stock were received, if receipt was a taxable event to such participant or, (ii) from the date the restrictions on the shares lapsed, if such lapse was a taxable event to the participant.

#### **Withholding for Taxes**

No common stock shall be issued under the Plan until arrangements satisfactory to us have been made for the payment of any tax amounts that may be required to be withheld or paid by us with respect thereto at the minimum statutory rate. At the discretion of the Committee, such arrangements may include allowing the participant to tender to us shares of common stock already owned by the participant.

#### **Additional Tax Consequences**

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