

GENESIS ENERGY LP  
Form 10-Q  
August 03, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

Commission file number 1-12295

GENESIS ENERGY, L.P.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

76-0513049  
(I.R.S. Employer  
Identification No.)

919 Milam, Suite 2100,  
Houston, TX  
(Address of principal executive offices)

77002  
(Zip code)

Registrant's telephone number, including area code: (713) 860-2500

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

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 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.

Large accelerated filer  Accelerated filer ☐ Non-accelerated filer ☐ 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 ✓

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Class A Common Units outstanding as of August 1, 2012 was 79,424,522.



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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## GENESIS ENERGY, L.P.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except units)

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$15,042	\$10,817
Accounts receivable - trade, net	231,526	237,989
Inventories	72,978	101,124
Other	22,177	26,174
Total current assets	341,723	376,104
<b>FIXED ASSETS, at cost</b>	<b>652,178</b>	<b>541,138</b>
Less: Accumulated depreciation	(139,926)	(124,213)
Net fixed assets	512,252	416,925
NET INVESTMENT IN DIRECT FINANCING LEASES, net of unearned income	159,982	162,460
EQUITY INVESTEEES	547,896	326,947
INTANGIBLE ASSETS, net of amortization	83,525	93,356
GOODWILL	325,046	325,046
OTHER ASSETS, net of amortization	29,926	30,006
<b>TOTAL ASSETS</b>	<b>\$2,000,350</b>	<b>\$1,730,844</b>
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable - trade	\$189,105	\$199,357
Accrued liabilities	46,676	50,071
Total current liabilities	235,781	249,428
SENIOR SECURED CREDIT FACILITY	445,000	409,300
SENIOR UNSECURED NOTES	350,953	250,000
DEFERRED TAX LIABILITIES	12,110	12,549
OTHER LONG-TERM LIABILITIES	23,204	16,929
<b>COMMITMENTS AND CONTINGENCIES (Note 14)</b>		
<b>PARTNERS' CAPITAL:</b>		
Common unitholders, 79,464,519 and 71,965,062 units issued and outstanding at June 30, 2012 and December 31, 2011, respectively	933,302	792,638
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>\$2,000,350</b>	<b>\$1,730,844</b>

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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## GENESIS ENERGY, L.P.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
<b>REVENUES:</b>				
Supply and logistics	\$857,127	\$698,343	\$1,722,616	\$1,326,140
Refinery services	48,320	49,363	96,365	96,909
Pipeline transportation services	17,221	15,084	36,630	29,539
Total revenues	922,668	762,790	1,855,611	1,452,588
<b>COSTS AND EXPENSES:</b>				
Supply and logistics product costs	792,413	653,544	1,600,508	1,250,683
Supply and logistics operating costs	40,707	25,813	78,623	50,038
Refinery services operating costs	31,050	30,264	61,829	59,850
Pipeline transportation operating costs	5,032	4,356	10,084	8,426
General and administrative	9,967	8,380	19,559	16,434
Depreciation and amortization	15,357	14,253	30,392	28,156
Net loss on disposal of surplus assets	473	249	217	238
Total costs and expenses	894,999	736,859	1,801,212	1,413,825
<b>OPERATING INCOME</b>	27,669	25,931	54,399	38,763
Equity in earnings of equity investees	1,047	592	4,539	3,789
Interest expense	(10,228 )	(9,011 )	(20,824 )	(17,710 )
Income before income taxes	18,488	17,512	38,114	24,842
Income tax benefit (expense)	96	(154 )	74	(454 )
<b>NET INCOME</b>	\$18,584	\$17,358	\$38,188	\$24,388
<b>NET INCOME PER COMMON UNIT:</b>				
Basic and Diluted	\$0.23	\$0.27	\$0.50	\$0.38
<b>WEIGHTED AVERAGE OUTSTANDING COMMON UNITS:</b>				
Basic and Diluted	79,465	64,615	76,150	64,615

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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## GENESIS ENERGY, L.P.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

(In thousands)

	Number of Common Units		Partners' Capital	
	2012	2011	2012	2011
Partners' capital, January 1	71,965	64,615	\$792,638	\$669,264
Net income	—	—	38,188	24,388
Cash distributions	—	—	(67,445	) (52,189
Issuance of common units for cash, net	5,750	—	169,421	—
Conversion of waiver units	1,738	—	—	—
Other	12	—	500	—
Partners' capital, June 30	79,465	64,615	\$933,302	\$641,463

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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## GENESIS ENERGY, L.P.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended	
	June 30,	2011
	2012	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$38,188	\$24,388
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	30,392	28,156
Amortization of debt issuance costs and premium	1,784	1,310
Amortization of unearned income and initial direct costs on direct financing leases	(8,456)	(8,672)
Payments received under direct financing leases	10,926	10,926
Equity in earnings of investments in equity investees	(4,539)	(3,789)
Cash distributions of earnings of equity investees	10,715	5,917
Non-cash effect of equity-based compensation plans	1,617	(757)
Deferred and other tax liabilities	(439)	21
Unrealized gains on derivative transactions	(1,176)	(15)
Other, net	343	972
Net changes in components of operating assets and liabilities ( <u>Note 11</u> )	19,924	(49,035)
Net cash provided by operating activities	99,279	9,422
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments to acquire fixed and intangible assets	(80,378)	(9,328)
Cash distributions received from equity investees - return of investment	7,309	6,096
Investments in equity investees	(51,431)	(194)
Acquisitions	(205,576)	—
Other, net	(261)	1,041
Net cash used in investing activities	(330,337)	(2,385)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on senior secured credit facility	700,700	267,900
Repayments on senior secured credit facility	(665,000)	(221,900)
Proceeds from issuance of senior unsecured notes, including premium	101,000	—
Senior unsecured notes issuance costs	(2,690)	—
Issuance of common units for cash, net	169,421	—
Distributions to common unitholders	(67,445)	(52,189)
Other, net	(703)	(1,176)
Net cash provided by (used in) financing activities	235,283	(7,365)
Net increase (decrease) in cash and cash equivalents	4,225	(328)
Cash and cash equivalents at beginning of period	10,817	5,762
Cash and cash equivalents at end of period	\$15,042	\$5,434

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation and Consolidation

Organization

We are a growth-oriented limited partnership focused on the midstream segment of the oil and gas industry in the Gulf Coast region of the United States, primarily Texas, Louisiana, Arkansas, Mississippi, Alabama, Florida and in the Gulf of Mexico. We have a diverse portfolio of assets, including pipelines, refinery-related plants, storage tanks and terminals, barges and trucks. We were formed in 1996 and are owned 100% by our limited partners. Genesis Energy, LLC, our general partner, is a wholly-owned subsidiary. Our general partner has sole responsibility for conducting our business and managing our operations. We conduct our operations and own our operating assets through our subsidiaries and joint ventures. We manage our businesses through the following three divisions that constitute our reportable segments:

- Pipeline transportation of interstate, intrastate and offshore crude oil, and, to a lesser extent, carbon dioxide (or "CO<sub>2</sub>");

- Refinery services involving processing of high sulfur (or "sour") gas streams for refineries to remove the sulfur, and sale of the related by-product, sodium hydrosulfide (or "NaHS", commonly pronounced "nash"); and

- Supply and logistics services, which includes terminaling, blending, storing, marketing, and transporting crude oil and petroleum products and, on a smaller scale, CO<sub>2</sub>.

Basis of Presentation and Consolidation

The accompanying Unaudited Condensed Consolidated Financial Statements include Genesis Energy, L.P. and its subsidiaries, including Genesis Energy, LLC, our general partner.

Our results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. The Condensed Consolidated Financial Statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC").

Accordingly, they reflect all adjustments (which consist solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial results for interim periods. Certain information and notes normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures are adequate to make the information presented not misleading when read in conjunction with the information contained in the periodic reports we file with the SEC pursuant to the Securities Exchange Act of 1934, including the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Except per unit amounts, or as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands of dollars.

2. Acquisition

On January 3, 2012, we acquired from Marathon Oil Company interests in several Gulf of Mexico crude oil pipeline systems. The acquired pipeline interests include a 28% interest in Poseidon Oil Pipeline Company, L.L.C. (or "Poseidon"), a 100% interest in Marathon Offshore Pipeline, LLC (subsequently re-named GEL Offshore Pipeline, LLC, or "GOPL") and a 29% interest in Odyssey Pipeline L.L.C. (or "Odyssey"). GOPL owns a 23% interest in the Eugene Island crude oil pipeline system and a 100% interest in two smaller offshore pipelines. The purchase price, net of post-closing adjustments, was \$205.6 million. We funded the purchase price with cash available under our credit facility. We account for our interests in Poseidon and Odyssey under the equity method of accounting. We have recorded the assets acquired and liabilities assumed of GOPL in the Unaudited Condensed Consolidated Financial Statements at their estimated fair values on a preliminary basis. Management developed these preliminary fair values. The preliminary allocation of the purchase price is summarized as follows:

Property and equipment	\$28,456
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Equity investees	182,993	
Asset retirement obligation assumed	(5,873	)
Total allocation	\$205,576	

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## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Poseidon pipeline system is comprised of a 367-mile network of crude oil pipelines, varying in diameter from 16 to 24 inches, with capacity to deliver approximately 400,000 barrels per day of crude oil from developments in the central and western offshore Gulf of Mexico to other pipelines and terminals onshore and offshore Louisiana. The Eugene Island pipeline system is primarily comprised of a 183-mile network of crude oil pipelines, the main pipeline of which is 20 inches in diameter, with capacity to deliver approximately 200,000 barrels per day of crude oil from developments in the central Gulf of Mexico to other pipelines and terminals onshore Louisiana. The Odyssey pipeline system is comprised of a 120-mile network of crude oil pipelines, varying in diameter from 12 to 20 inches, with capacity to deliver up to 300,000 barrels per day of crude oil from developments in the eastern Gulf of Mexico to other pipelines and terminals onshore Louisiana.

Our Unaudited Condensed Consolidated Financial Statements include the results of the acquired pipeline interests since the effective closing date of the acquisition in January 2012. The following table presents selected financial information included in our Unaudited Condensed Consolidated Financial Statements for the three and six months ended June 30, 2012:

	Three Months Ended June 30, 2012	Six Months Ended June 30,
Revenues	\$1,332	\$3,154
Equity in earnings of equity investees	\$3,041	\$5,697
Net income	\$3,655	\$7,178

The table below presents selected unaudited pro forma financial information for the three and six months ended June 30, 2011 incorporating the historical results of the acquired pipeline interests. The pro forma financial information below has been prepared as if the acquisition had been completed at the beginning of the prior year and is based upon assumptions deemed appropriate by us and may not be indicative of actual results.

	Three Months Ended June 30, 2011	Six Months Ended June 30,
Pro forma earnings data:		
Revenues	\$764,546	\$1,456,100
Equity in earnings of equity investees	\$3,843	\$9,358
Net income	\$19,892	\$28,038
Basic and diluted earnings per unit:		
As reported net income per unit	\$0.27	\$0.38
Pro forma net income per unit	\$0.31	\$0.43
As reported units outstanding	64,615	64,615
Pro forma units outstanding	64,615	64,615

## 3. Inventories

The major components of inventories were as follows:

	June 30, 2012	December 31, 2011
Petroleum products	\$53,962	\$70,769

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Crude oil	6,510	11,701
Caustic soda	8,527	11,312
NaHS	3,973	7,337
Other	6	5
Total	\$72,978	\$101,124

Inventories are valued at the lower of cost or market. The costs of inventories exceeded market values by approximately \$1.1 million at June 30, 2012, and we reduced the value of inventory in our Unaudited Condensed Consolidated Financial Statements for this difference. At December 31, 2011, market values of our inventories exceeded recorded costs.

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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. Fixed Assets and Asset Retirement Obligations

## Fixed Assets

Fixed assets consisted of the following:

	June 30, 2012	December 31, 2011
Pipelines and related assets	\$205,435	\$167,865
Machinery and equipment	47,639	46,233
Transportation equipment	20,051	21,732
Marine vessels	297,400	262,216
Land, buildings and improvements	13,278	13,140
Office equipment, furniture and fixtures	4,397	3,778
Construction in progress	52,044	14,236
Other	11,934	11,938
Fixed assets, at cost	652,178	541,138
Less: Accumulated depreciation	(139,926	) (124,213
Net fixed assets	\$512,252	\$416,925

Our depreciation expense for the periods presented was as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Depreciation expense	\$9,077	\$5,804	\$17,827	\$11,640
Asset Retirement Obligations				

A reconciliation of our liability for asset retirement obligations is as follows:

December 31, 2011	\$5,900
Liabilities incurred and assumed in the current period	5,995
Accretion expense	400
June 30, 2012	\$12,295

We assumed asset retirement obligations of \$5.9 million related to pipelines in connection with our acquisition of GOPL. See Note 2 for information related to our acquisitions.

## 5. Equity Investees

We account for our ownership in our joint ventures under the equity method of accounting. The price we pay to acquire an ownership interest in a company may exceed the underlying book value of the capital accounts we acquire. Such excess cost amounts are included within the carrying values of our equity investees. At June 30, 2012 and December 31, 2011, the unamortized excess cost amounts totaled \$239.1 million and \$97.8 million, respectively. We amortize the excess cost as a reduction in equity earnings in a manner similar to depreciation.

The following table presents information included in our Unaudited Condensed Consolidated Financial Statements related to our equity investees.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Genesis' share of operating earnings	\$3,595	\$1,732	\$9,633	\$6,071
Amortization of excess purchase price	(2,548 )	(1,140 )	(5,094 )	(2,282 )
Net equity in earnings	\$1,047	\$592	\$4,539	\$3,789
Distributions received	\$7,799	\$5,513	\$18,024	\$12,013

The following tables present the combined unaudited balance sheet and income statement information (on a 100% basis) of our equity investees:

	June 30, 2012	December 31, 2011
Balance Sheet Information:		
Assets		
Current assets	\$66,739	\$12,732
Fixed assets, net	757,389	441,894
Other assets	11,692	18,000
Total assets	\$835,820	\$472,626
Liabilities and equity		
Current liabilities	\$52,647	\$5,891
Other liabilities	118,546	8,536
Equity	664,627	458,199
Total liabilities and equity	\$835,820	\$472,626

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Income Statement Information:				
Revenues	\$36,452	\$9,835	\$73,970	\$24,844
Operating income	\$14,391	\$2,783	\$33,787	\$11,192
Net income	\$13,682	\$2,783	\$32,357	\$11,202

## 6. Intangible Assets

The following table summarizes the components of our intangible assets at the dates indicated:

	June 30, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Refinery Services:						
Customer relationships	\$94,654	\$65,639	\$29,015	\$94,654	\$62,111	\$32,543
Licensing agreements	38,678	21,184	17,494	38,678	19,476	19,202
Supplier relationships	36,469	35,287	1,182	36,469	34,105	2,364
Segment total	169,801	122,110	47,691	169,801	115,692	54,109
Supply & Logistics:						

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Customer relationships	35,430	24,994	10,436	35,430	23,584	11,846
Intangibles associated with lease	13,260	2,328	10,932	13,260	2,092	11,168
Trade names	18,888	18,888	—	18,888	17,048	1,840
Segment total	67,578	46,210	21,368	67,578	42,724	24,854
Other	18,332	3,866	14,466	17,292	2,899	14,393
Total	\$255,711	\$ 172,186	\$83,525	\$254,671	\$ 161,315	\$93,356

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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Our amortization expense for the periods presented was as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Amortization expense	\$ 5,355	\$ 7,473	\$ 10,870	\$ 14,646

We estimate that our amortization expense for the next five years will be as follows:

Remainder of 2012	\$9,225
2013	\$14,531
2014	\$12,232
2015	\$10,424
2016	\$8,962

**7. Debt**

Our obligations under debt arrangements consisted of the following:

	June 30, 2012	December 31, 2011
Senior secured credit facility	\$445,000	\$409,300
7.875% senior unsecured notes (including unamortized premium of \$953 and \$0 in 2012 and 2011, respectively)	350,953	250,000
Total long-term debt	\$795,953	\$659,300

As of June 30, 2012, we were in compliance with the financial covenants contained in our credit agreement and senior unsecured notes indenture.

**Senior Secured Credit Facility**

At June 30, 2012, we had \$445 million borrowed under our \$775 million senior secured credit facility, with \$47.4 million of the borrowed amount designated as a loan under the inventory sublimit. The credit facility can be increased up to \$1 billion, subject to lender approval. The credit agreement allows up to \$100 million of the capacity to be used for letters of credit, of which \$13.9 million was outstanding at June 30, 2012. Due to the revolving nature of loans under our credit facility, additional borrowings and periodic repayments and re-borrowings may be made until the maturity date of June 30, 2015. The total amount available for borrowings under our credit facility at June 30, 2012 was \$316.1 million.

In July 2012, we amended and restated our senior secured credit facility. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for further details.

**Senior Unsecured Notes Issuance**

On February 1, 2012, we issued an additional \$100 million of aggregate principal amount of senior unsecured notes under our existing 7.875% senior unsecured notes due 2018 indenture. The notes were issued at 101% of face value at an effective interest rate of 7.682%. The notes have the same terms and conditions as the notes previously issued under the indenture. The issuance increased the total aggregate principal amount under the indenture to \$350 million. The net proceeds were used to repay borrowings under our credit facility.

**8. Partners' Capital and Distributions**

On March 28, 2012, we issued 5,750,000 Class A common units in a public offering at a price of \$30.80 per unit. We received proceeds, net of underwriting discounts and offering costs, of \$169.4 million from the offering. The net proceeds were used for general corporate purposes, including the repayment of borrowings under our credit facility. At June 30, 2012, our outstanding common units consisted of 79,424,522 Class A units and 39,997 Class B units.





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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Waiver Units

Our waiver units are non-voting securities entitled to a minimal preferential quarterly distribution. At issuance our waiver units were comprised of four classes (designated Class 1, Class 2, Class 3 and Class 4) of 1,750,000 authorized units each, of which 1,738,000 units of each class have been issued. The waiver units in each class are convertible into Class A common units in the calendar quarter at a 1:1 conversion rate during which each of our common units receives a specified minimum quarterly distribution and our distribution coverage ratio (after giving effect to the then convertible waiver units) would be at least 1.1 times. The minimum distribution per common unit required for conversion is \$0.43 (Class 1), \$0.46 (Class 2), \$0.49 (Class 3) and \$0.52 (Class 4). On February 14, 2012, our Class 1 waiver units became convertible as we paid a distribution of \$0.44 per common unit and satisfied the conversion coverage ratio requirement. All Class 1 waiver units were converted into common units by March 31, 2012. At June 30, 2012, we had 5,214,099 waiver units outstanding comprised of the last three classes.

On August 14, 2012, each of our Class 2 waiver units will become convertible (at the option of the holder thereof) as we will pay a distribution of \$0.46 per common unit and satisfy the conversion coverage ratio requirement. The waiver units convert into common units no later than six months from the date they become convertible.

## Distributions

We paid or will pay the following distributions in 2011 and 2012:

Distribution For	Date Paid	Per Unit Amount	Total Amount
2011			
1 <sup>st</sup> Quarter	May 13, 2011	\$0.4075	\$26,343
2 <sup>nd</sup> Quarter	August 12, 2011	\$0.4150	\$29,878
3 <sup>rd</sup> Quarter	November 14, 2011	\$0.4275	\$30,777
4 <sup>th</sup> Quarter	February 14, 2012	\$0.4400	\$31,677
2012			
1 <sup>st</sup> Quarter	May 15, 2012	\$0.4500	\$35,759
2 <sup>nd</sup> Quarter	August 14, 2012 <sup>(1)</sup>	\$0.4600	\$36,554

(1) This distribution will be paid to unitholders of record as of August 1, 2012.

## 9. Business Segment Information

Our operations consist of three operating segments:

- (1) Pipeline Transportation – interstate, intrastate and offshore crude oil, and to a lesser extent, CO<sub>2</sub>;
- (2) Refinery Services – processing high sulfur (or “sour”) gas streams as part of refining operations to remove the sulfur and sale of the related by-product, NaHS and;
- (3) Supply and Logistics – terminaling, blending, storing, marketing, and transporting crude oil and petroleum products (primarily fuel oil, asphalt, and other heavy refined products) and, on a smaller scale, CO<sub>2</sub>.

Substantially all of our revenues are derived from, and substantially all of our assets are located in the United States. We define Segment Margin as revenues less product costs, operating expenses (excluding non-cash charges, such as depreciation and amortization), and segment general and administrative expenses, plus our equity in distributable cash generated by our equity investees. In addition, our Segment Margin definition excludes the non-cash effects of our stock appreciation rights plan and includes the non-income portion of payments received under direct financing leases. Our chief operating decision maker (our Chief Executive Officer) evaluates segment performance based on a variety of measures including Segment Margin, segment volumes where relevant, and capital investment.

Segment information for the periods presented below was as follows:



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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Pipeline Transportation	Refinery Services	Supply & Logistics	Total
Three Months Ended June 30, 2012				
Segment margin (a)	\$20,785	\$17,278	\$24,768	\$62,831
Capital expenditures (b)	\$31,901	\$360	\$22,173	\$54,434
Revenues:				
External customers	\$13,398	\$50,575	\$858,695	\$922,668
Intersegment (c)	3,823	(2,255)	(1,568)	—
Total revenues of reportable segments	\$17,221	\$48,320	\$857,127	\$922,668
Three Months Ended June 30, 2011				
Segment margin (a)	\$16,927	\$18,947	\$11,799	\$47,673
Capital expenditures (b)	\$1,234	\$189	\$1,819	\$3,242
Revenues:				
External customers	\$12,051	\$51,334	\$699,405	\$762,790
Intersegment (c)	3,033	(1,971)	(1,062)	—
Total revenues of reportable segments	\$15,084	\$49,363	\$698,343	\$762,790
Six Months Ended June 30, 2012				
Segment margin (a)	\$46,132	\$34,527	\$42,424	\$123,083
Capital expenditures (b)	\$278,329	\$1,270	\$63,004	\$342,603
Revenues:				
External customers	\$28,374	\$100,948	\$1,726,289	\$1,855,611
Intersegment (c)	8,256	(4,583)	(3,673)	—
Total revenues of reportable segments	\$36,630	\$96,365	\$1,722,616	\$1,855,611
Six Months Ended June 30, 2011				
Segment margin (a)	\$34,609	\$36,895	\$25,324	\$96,828
Capital expenditures (b)	\$1,682	\$469	\$2,127	\$4,278
Revenues:				
External customers	\$24,644	\$100,917	\$1,327,027	\$1,452,588
Intersegment (c)	4,895	(4,008)	(887)	—
Total revenues of reportable segments	\$29,539	\$96,909	\$1,326,140	\$1,452,588
Total assets by reportable segment were as follows:				
			June 30, 2012	December 31, 2011
Pipeline transportation			\$856,418	\$594,728
Refinery services			418,050	426,993
Supply and logistics			674,834	659,576
Other assets			51,048	49,547
Total consolidated assets			\$2,000,350	\$1,730,844

(a) A reconciliation of Segment Margin to income before income taxes for the periods presented is as follows:

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Segment Margin	\$62,831	\$47,673	\$123,083	\$96,828
Corporate general and administrative expenses	(8,707 )	(7,689 )	(17,328 )	(15,073 )
Depreciation and amortization	(15,357 )	(14,253 )	(30,392 )	(28,156 )
Net loss on disposal of surplus assets	(473 )	(249 )	(217 )	(238 )
Interest expense	(10,228 )	(9,011 )	(20,824 )	(17,710 )
Distributable cash from equity investees in excess of equity in earnings	(6,752 )	(4,921 )	(13,485 )	(8,224 )
Non-cash items not included in segment margin	(1,577 )	7,103	(253 )	(331 )
Cash payments from direct financing leases in excess of earnings	(1,249 )	(1,141 )	(2,470 )	(2,254 )
Income before income taxes	\$18,488	\$17,512	\$38,114	\$24,842

Capital expenditures include maintenance and growth capital expenditures, such as fixed asset additions (including enhancements to existing facilities and construction of internal growth projects) as well as acquisitions of businesses and interests in equity investees. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for more information regarding our capital expenditures. Capital spending in our pipeline transportation segment included \$17.9 million and \$51.4 million (b) during the three and six months ended June 30, 2012, respectively, representing capital contributions to our SEKCO equity investee to fund our share of the construction costs for its pipeline. For the six months ended June 30, 2012, capital spending in our pipeline transportation segment also included \$205.6 million for the acquisition of interests in several Gulf of Mexico pipelines and pipeline equity investees. For the six months ended June 30, 2012, capital spending in our supply and logistics segment also included \$30.6 million for the purchase of barge assets.

(c) Intersegment sales were conducted under terms no more or less favorable than then-existing market conditions.

## 10. Transactions with Related Parties

Sales, purchases and other transactions with affiliated companies, in the opinion of management, are conducted under terms no more or less favorable than then-existing market conditions. The transactions with related parties were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenues:				
Petroleum products sales to an affiliate of the Robertson Group <sup>(1)</sup>	\$4,578	\$11,533	\$14,766	\$21,254
Sales of CO <sub>2</sub> to Sandhill Group, LLC <sup>(2)</sup>	660	432	1,273	975
Petroleum products sales to Davison family businesses <sup>(1)</sup>	374	245	686	487
Costs and expenses:				
Marine operating fuel and expenses provided by an affiliate of the Robertson Group <sup>(1)</sup>	2,244	780	4,201	1,820
Amounts paid to our CEO in connection with the use of his aircraft	150	—	300	—

<sup>(1)</sup> The Robertson Group owned 9% of our Class A common units and 74% of our Class B common units at June 30, 2012. The Davison family owned 15% of our Class A common units at June 30, 2012.

<sup>(2)</sup> We own a 50% interest in Sandhill Group, LLC.

Amounts due to and from Related Parties

At June 30, 2012 and December 31, 2011, an affiliate of the Robertson Group owed us \$0.2 million and \$1.9 million, respectively, for petroleum product sales. We owed the affiliate \$0.2 million and \$0.1 million, respectively, for marine related costs. Sandhill Group, LLC owed us \$0.4 million and \$0.2 million, at June 30, 2012 and December 31, 2011, respectively, for purchases of CO<sub>2</sub>.

11. Supplemental Cash Flow Information

The following table provides information regarding the net changes in components of operating assets and liabilities.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Six Months Ended	
	June 30,	
	2012	2011
(Increase) decrease in:		
Accounts receivable	\$6,698	\$(54,810 )
Inventories	28,146	(33,847 )
Other current assets	5,197	(1,727 )
Increase (decrease) in:		
Accounts payable	(9,549 )	37,167
Accrued liabilities	(10,568 )	4,182
Net changes in components of operating assets and liabilities	\$19,924	\$(49,035 )

Payments of interest and commitment fees were \$21.6 million and \$17.6 million for the six months ended June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, we had incurred liabilities for fixed and intangible asset additions totaling \$8.1 million and \$0.9 million, respectively, that had not been paid at the end of the second quarter, and, therefore, were not included in the caption "Payments to acquire fixed and intangible assets" under Cash Flows from Investing Activities in the Unaudited Condensed Consolidated Statements of Cash Flows.

## 12. Derivatives

## Commodity Derivatives

We have exposure to commodity price changes related to our inventory and purchase commitments. We utilize derivative instruments (primarily futures and options contracts traded on the NYMEX) to hedge our exposure to commodity prices, primarily crude oil, fuel oil and petroleum products; however, only a portion of these instruments are designated as hedges under the accounting guidance. Our decision as to whether to designate derivative instruments as fair value hedges for accounting purposes relates to our expectations of the length of time we expect to have the commodity price exposure and our expectations as to whether the derivative contract will qualify as highly effective under accounting guidance in limiting our exposure to commodity price risk. Most of the petroleum products, including fuel oil that we supply cannot be hedged with a high degree of effectiveness with derivative contracts available on the NYMEX; therefore, we do not designate derivative contracts utilized to limit our price risk related to these products as hedges for accounting purposes. Typically we utilize crude oil and other petroleum products futures and option contracts to limit our exposure to the effect of fluctuations in petroleum products prices on the future sale of our inventory or commitments to purchase petroleum products, and we recognize any changes in fair value of the derivative contracts as increases or decreases in our cost of sales. The recognition of changes in fair value of the derivative contracts not designated as hedges for accounting purposes can occur in reporting periods that do not coincide with the recognition of gain or loss on the actual transaction being hedged. Therefore we will, on occasion, report gains or losses in one period that will be partially offset by gains or losses in a future period when the hedged transaction is completed.

In accordance with NYMEX requirements, we fund the margin associated with our loss positions on commodity derivative contracts traded on the NYMEX. The amount of the margin is adjusted daily based on the fair value of the commodity contracts. The margin requirements are intended to mitigate a party's exposure to market volatility and the associated contracting party risk. We offset fair value amounts recorded for our NYMEX derivative contracts against margin funding as required by the NYMEX in Current Assets - Other in our Unaudited Condensed Consolidated Balance Sheets.

At June 30, 2012, we had the following outstanding derivative commodity futures and options contracts that were entered into to economically hedge inventory or fixed price purchase commitments. We had no outstanding derivative contracts that were designated as hedges under accounting rules.



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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Sell (Short) Contracts	Buy (Long) Contracts
Not qualifying or not designated as hedges under accounting rules:		
Crude oil futures:		
Contract volumes (1,000 bbls)	157	81
Weighted average contract price per bbl	\$89.58	\$90.88
Heating oil futures:		
Contract volumes (1,000 bbls)	25	—
Weighted average contract price per gal	\$2.56	\$—
RBOB gasoline futures:		
Contract volumes (1,000 bbls)	12	—
Weighted average contract price per gal	\$2.49	\$—
#6 Fuel oil futures:		
Contract volumes (1,000 bbls)	555	145
Weighted average contract price per bbl	\$87.00	\$88.15
Crude oil options:		
Contract volumes (1,000 bbls)	285	70
Weighted average premium received	\$2.04	\$1.12

## Financial Statement Impacts

Unrealized gains are subtracted from net income and unrealized losses are added to net income in determining cash flows from operating activities. Additionally, the offsetting change in the fair value of inventory that is recorded for our fair value hedges is also eliminated from net income in determining cash flows from operating activities. Changes in margin deposits necessary to fund unrealized losses also affect cash flows from operating activities.

The following tables reflect the estimated fair value gain (loss) position of our derivatives at June 30, 2012 and December 31, 2011:

## Fair Value of Derivative Assets and Liabilities

	Unaudited Condensed Consolidated Balance Sheets Location	Fair Value	
		June 30, 2012	December 31, 2011
Asset Derivatives:			
Commodity derivatives - futures and call options:			
Undesignated hedges	Current Assets - Other	\$695	\$ 306
Total asset derivatives		\$695	\$ 306
Liability Derivatives:			
Commodity derivatives - futures and call options:			
Undesignated hedges	Current Assets - Other	\$(2,032 ) <sup>(1)</sup>	\$(2,820 ) <sup>(1)</sup>
Total liability derivatives		\$(2,032 )	\$(2,820 )

(1) These derivative liabilities have been funded with margin deposits recorded in our Unaudited Condensed Consolidated Balance Sheets under Current Assets - Other.

## Effect on Operating Results





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## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Unaudited Condensed Consolidated Statements of Operations Location	Three Months Ended June 30,		Six Months Ended June 30,	
		2012	2011	2012	2011
Commodity derivatives - futures and call options:					
Contracts designated as hedges under accounting guidance	Supply and logistics product costs	\$—	\$(173 )	\$—	\$(434 )
Contracts not considered hedges under accounting guidance	Supply and logistics product costs	13,569	(13,637 )	2,858	(31,890 )
Total commodity derivatives		\$13,569	\$(13,810)	\$2,858	\$(32,324 )

## 13. Fair-Value Measurements

We classify financial assets and liabilities into the following three levels based on the inputs used to measure fair value:

(1) Level 1 fair values are based on observable inputs such as quoted prices in active markets;

(2) Level 2 fair values are based on pricing inputs other than quoted prices in active markets and are either directly or indirectly observable as of the measurement date; and

(3) Level 3 fair values are based on unobservable inputs in which little or no market data exists. As required by fair value accounting guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Our assessment of the significance of a particular input to the fair value requires judgment and may affect the placement of assets and liabilities within the fair value hierarchy levels.

The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at the dates indicated.

Recurring Fair Value Measures	Fair Value at June 30, 2012			Fair Value at December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Commodity derivatives:						
Assets	\$695	\$—	\$—	\$306	\$—	\$—
Liabilities	\$(2,032 )	\$—	\$—	\$(2,820 )	\$—	\$—

Our commodity derivatives include exchange-traded futures and exchange-traded options contracts. The fair value of these exchange-traded derivative contracts is based on unadjusted quoted prices in active markets and is, therefore, included in Level 1 of the fair value hierarchy.

See Note 12 for additional information on our derivative instruments.

## Nonfinancial Assets and Liabilities

We utilize fair value on a non-recurring basis to perform impairment tests as required on our property, plant and equipment, goodwill and intangible assets. Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and would generally be classified in Level 3, in the event that were were required to measure and record such assets within our Unaudited Condensed Consolidated Financial Statements. Additionally, we use fair value to determine the inception value of our asset retirement obligations. The inputs used to determine such fair value are primarily based upon costs incurred historically for similar work, as well as estimates from independent third parties for costs that would be incurred to restore leased property to the contractually stipulated condition, and would generally be classified in Level 3.

We utilize fair value on a recurring basis to measure our contingent consideration that is a result of certain acquisitions. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and are classified in Level 3.

Other Fair Value Measurements

We believe the debt outstanding under our credit facility approximates fair value as the stated rate of interest

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

approximates current market rates for similar instruments with comparable maturities. At June 30, 2012, our senior unsecured notes had a carrying value of \$351 million and a fair value of \$348.3 million, compared to \$250 million and \$253.1 million, respectively, at December 31, 2011. The fair value of the senior unsecured notes is determined based on trade information in the financial markets of our public debt and is considered a Level 2 fair value measurement.

14. Contingencies

We are subject to various environmental laws and regulations. Policies and procedures are in place to monitor compliance and to detect and address any material releases of crude oil from our pipelines or other facilities; however, no assurance can be made that such environmental releases may not substantially affect our business.

We are subject to lawsuits in the normal course of business, as well as examinations by tax and other regulatory authorities. We do not expect such matters presently pending to have a material effect on our financial position, results of operations, or cash flows.

15. Condensed Consolidating Financial Information

Our \$350 million aggregate principal amount of senior unsecured notes co-issued by Genesis Energy, L.P. and Genesis Energy Finance Corporation are fully and unconditionally guaranteed jointly and severally by all of Genesis Energy, L.P.'s subsidiaries, except Genesis Free State Pipeline, LLC, Genesis NEJD Pipeline, LLC and certain other minor subsidiaries. Genesis NEJD Pipeline, LLC is 100% owned by Genesis Energy, L.P., the parent company. The remaining non-guarantor subsidiaries are owned by Genesis Crude Oil, L.P., a guarantor subsidiary. Genesis Energy Finance Corporation has no independent assets or operations. Each subsidiary guarantor and the subsidiary co-issuer are 100% owned, directly or indirectly, by Genesis Energy, L.P. See Note 7 for additional information regarding our consolidated debt obligations. The following is condensed consolidating financial information for Genesis Energy, L.P., the guarantor subsidiaries and the non-guarantor subsidiaries.

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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Condensed Consolidating Balance Sheet  
June 30, 2012

	Genesis Energy, L.P. (Parent and Co-Issuer)	Genesis Energy Corporation (Co-Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Genesis Energy, L.P. Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$2	\$—	\$14,653	\$387	\$—	\$15,042
Other current assets	712,588	—	306,465	32,011	(724,383 )	326,681
Total current assets	712,590	—	321,118	32,398	(724,383 )	341,723
Fixed assets, at cost	—	—	553,860	98,318	—	652,178
Less: Accumulated depreciation	—	—	(128,585 )	(11,341 )	—	(139,926 )
Net fixed assets	—	—	425,275	86,977	—	512,252
Goodwill	—	—	325,046	—	—	325,046
Other assets, net	15,633	—	263,517	160,069	(165,786 )	273,433
Equity investees	—	—	547,896	—	—	547,896
Investments in subsidiaries	1,003,161	—	98,668	—	(1,101,829 )	—
Total assets	\$1,731,384	\$—	\$1,981,520	\$279,444	\$(1,991,998)	\$2,000,350
<b>LIABILITIES AND PARTNERS' CAPITAL</b>						
Current liabilities	\$2,129	\$—	\$944,407	\$13,787	\$(724,542 )	\$235,781
Senior secured credit facility	445,000	—	—	—	—	445,000
Senior unsecured notes	350,953	—	—	—	—	350,953
Deferred tax liabilities	—	—	12,110	—	—	12,110
Other liabilities	—	—	21,042	167,763	(165,601 )	23,204
Total liabilities	798,082	—	977,559	181,550	(890,143 )	1,067,048
Partners' capital	933,302	—	1,003,961	97,894	(1,101,855 )	933,302
Total liabilities and partners' capital	\$1,731,384	\$—	\$1,981,520	\$279,444	\$(1,991,998)	\$2,000,350

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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Unaudited Condensed Consolidating Balance Sheet

December 31, 2011

	Genesis Energy, L.P. (Parent and Co-Issuer)	Genesis Energy Corporation (Co-Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Genesis Energy, L.P. Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$3	\$—	\$9,182	\$1,632	\$—	\$10,817
Other current assets	597,966	—	341,131	31,897	(605,707)	365,287
Total current assets	597,969	—	350,313	33,529	(605,707)	376,104
Fixed assets, at cost	—	—	444,262	96,876	—	541,138
Less: Accumulated depreciation	—	—	(114,655)	(9,558)	—	(124,213)
Net fixed assets	—	—	329,607	87,318	—	416,925
Goodwill	—	—	325,046	—	—	325,046
Other assets, net	14,773	—	276,450	162,373	(167,774)	285,822
Equity investees	—	—	326,947	—	—	326,947
Investments in subsidiaries	841,725	—	96,303	—	(938,028)	—
Total assets	\$1,454,467	\$—	\$1,704,666	\$283,220	\$(1,711,509)	\$1,730,844
<b>LIABILITIES AND PARTNERS' CAPITAL</b>						
Current liabilities	\$2,529	\$—	\$835,013	\$17,562	\$(605,676)	\$249,428
Senior secured credit facility	409,300	—	—	—	—	409,300
Senior unsecured notes	250,000	—	—	—	—	250,000
Deferred tax liabilities	—	—	12,549	—	—	12,549
Other liabilities	—	—	14,673	169,842	(167,586)	16,929
Total liabilities	661,829	—	862,235	187,404	(773,262)	938,206
Partners' capital	792,638	—	842,431	95,816	(938,247)	792,638
Total liabilities and partners' capital	\$1,454,467	\$—	\$1,704,666	\$283,220	\$(1,711,509)	\$1,730,844

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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Unaudited Condensed Consolidating Statement of Operations

Three Months Ended June 30, 2012

	Genesis Energy, L.P. (Parent and Co-Issuer)	Genesis Energy Finance Corporation (Co-Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Genesis Energy, L.P. Consolidated
<b>REVENUES:</b>						
Supply and logistics	\$—	\$ —	\$ 849,469	\$ 32,159	\$(24,501 )	\$ 857,127
Refinery services	—	—	45,311	6,744	(3,735 )	48,320
Pipeline transportation services	—	—	10,869	6,352	—	17,221
Total revenues	—	—	905,649	45,255	(28,236 )	922,668
<b>COSTS AND EXPENSES:</b>						
Supply and logistics costs	—	—	829,597	28,022	(24,499 )	833,120
Refinery services operating costs	—	—	29,175	6,087	(4,212 )	31,050
Pipeline transportation operating costs	—	—	4,856	176	—	5,032
General and administrative	—	—	9,937	30	—	9,967
Depreciation and amortization	—	—	14,459	898	—	15,357
Net loss on disposal of surplus assets	—	—	473	—	—	473
Total costs and expenses	—	—	888,497	35,213	(28,711 )	894,999
<b>OPERATING INCOME</b>	—	—	17,152	10,042	475	27,669
Equity in earnings of subsidiaries	28,791	—	5,809	—	(34,600 )	—
Equity in earnings of equity investees	—	—	1,047	—	—	1,047
Interest (expense) income, net	(10,207 )	—	4,141	(4,162 )	—	(10,228 )
Income before income taxes	18,584	—	28,149	5,880	(34,125 )	18,488
Income tax benefit (expense)	—	—	216	(120 )	—	96
<b>NET INCOME</b>	<b>\$ 18,584</b>	<b>\$ —</b>	<b>\$ 28,365</b>	<b>\$ 5,760</b>	<b>\$(34,125 )</b>	<b>\$ 18,584</b>

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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Unaudited Condensed Consolidating Statement of Operations

Three Months Ended June 30, 2011

	Genesis Energy, L.P. (Parent and Co-Issuer)	Genesis Energy Finance Corporation (Co-Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Genesis Energy, L.P. Consolidated
<b>REVENUES:</b>						
Supply and logistics	\$—	\$ —	\$698,343	\$ —	\$—	\$698,343
Refinery services	—	—	46,782	4,668	(2,087 )	49,363
Pipeline transportation services	—	—	8,983	6,101	—	15,084
Total revenues	—	—	754,108	10,769	(2,087 )	762,790
<b>COSTS AND EXPENSES:</b>						
Supply and logistics costs	—	—	679,357	—	—	679,357
Refinery services operating costs	—	—	28,675	4,004	(2,415 )	30,264
Pipeline transportation operating costs	—	—	4,210	146	—	4,356
General and administrative	—	—	8,380	—	—	8,380
Depreciation and amortization	—	—	13,604	649	—	14,253
Net loss on disposal of surplus assets	—	—	249	—	—	249
Total costs and expenses	—	—	734,475	4,799	(2,415 )	736,859
<b>OPERATING INCOME</b>	—	—	19,633	5,970	328	25,931
Equity in earnings of subsidiaries	26,352	—	1,577	—	(27,929 )	—
Equity in earnings of equity investees	—	—	592	—	—	592
Interest (expense) income, net	(8,994 )	—	4,241	(4,258 )	—	(9,011 )
Income before income taxes	17,358	—	26,043	1,712	(27,601 )	17,512
Income tax benefit (expense)	—	—	30	(184 )	—	(154 )
<b>NET INCOME</b>	<b>\$17,358</b>	<b>\$ —</b>	<b>\$26,073</b>	<b>\$ 1,528</b>	<b>\$(27,601 )</b>	<b>\$17,358</b>





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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Unaudited Condensed Consolidating Statement of Operations

Six Months Ended June 30, 2012

	Genesis Energy, L.P. (Parent and Co-Issuer)	Genesis Energy Finance Corporation (Co-Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Genesis Energy, L.P. Consolidated
<b>REVENUES:</b>						
Supply and logistics	\$—	\$ —	\$1,709,376	\$ 64,338	\$(51,098 )	\$1,722,616
Refinery services	—	—	93,907	9,389	(6,931 )	96,365
Pipeline transportation services	—	—	23,785	12,845	—	36,630
Total revenues	—	—	1,827,068	86,572	(58,029 )	1,855,611
<b>COSTS AND EXPENSES:</b>						
Supply and logistics costs	—	—	1,673,465	56,762	(51,096 )	1,679,131
Refinery services operating costs	—	—	59,816	9,136	(7,123 )	61,829
Pipeline transportation operating costs	—	—	9,690	394	—	10,084
General and administrative	—	—	19,499	60	—	19,559
Depreciation and amortization	—	—	28,602	1,790	—	30,392
Net loss on disposal of surplus assets	—	—	217	—	—	217
Total costs and expenses	—	—	1,791,289	68,142	(58,219 )	1,801,212
<b>OPERATING INCOME</b>	—	—	35,779	18,430	190	54,399
Equity in earnings of subsidiaries	58,959	—	10,131	—	(69,090 )	—
Equity in earnings of equity investees	—	—	4,539	—	—	4,539
Interest (expense) income, net	(20,771 )	—	8,295	(8,348 )	—	(20,824 )
Income before income taxes	38,188	—	58,744	10,082	(68,900 )	38,114
Income tax benefit (expense)	—	—	121	(47 )	—	74
<b>NET INCOME</b>	<b>\$38,188</b>	<b>\$ —</b>	<b>\$58,865</b>	<b>\$ 10,035</b>	<b>\$(68,900 )</b>	<b>\$38,188</b>

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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Unaudited Condensed Consolidating Statement of Operations

Six Months Ended June 30, 2011

	Genesis Energy, L.P. (Parent and Co-Issuer)	Genesis Energy Finance Corporation (Co-Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Genesis Energy, L.P. Consolidated
<b>REVENUES:</b>						
Supply and logistics	\$—	\$ —	\$1,326,140	\$ —	\$—	\$1,326,140
Refinery services	—	—	94,292	9,148	(6,531 )	96,909
Pipeline transportation services	—	—	16,904	12,635	—	29,539
Total revenues	—	—	1,437,336	21,783	(6,531 )	1,452,588
<b>COSTS AND EXPENSES:</b>						
Supply and logistics costs	—	—	1,300,721	—	—	1,300,721
Refinery services operating costs	—	—	58,193	8,224	(6,567 )	59,850
Pipeline transportation operating costs	—	—	8,119	307	—	8,426
General and administrative	—	—	16,434	—	—	16,434
Depreciation and amortization	—	—	26,858	1,298	—	28,156
Net loss on disposal of surplus assets	—	—	238	—	—	238
Total costs and expenses	—	—	1,410,563	9,829	(6,567 )	1,413,825
<b>OPERATING INCOME</b>	—	—	26,773	11,954	36	38,763
Equity in earnings of subsidiaries	42,060	—	3,293	—	(45,353 )	—
Equity in earnings of equity investees	—	—	3,789	—	—	3,789
Interest (expense) income, net	(17,672 )	—	8,500	(8,538 )	—	(17,710 )
Income before income taxes	24,388	—	42,355	3,416	(45,317 )	24,842
Income tax expense	—	—	(234 )	(220 )	—	(454 )
<b>NET INCOME</b>	<b>\$24,388</b>	<b>\$ —</b>	<b>\$42,121</b>	<b>\$ 3,196</b>	<b>\$(45,317 )</b>	<b>\$24,388</b>

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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Unaudited Condensed Consolidating Statement of Cash Flows

Six Months Ended June 30, 2012

	Genesis Energy, L.P. (Parent and Co-Issuer)	Genesis Energy Finance Corporation (Co-Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Genesis Energy, L.P. Consolidated
Net cash (used in) provided by operating activities	\$(86,721 )	\$ —	\$ 231,807	\$ 10,216	\$(56,023 )	\$ 99,279
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Payments to acquire fixed and intangible assets	—	—	(78,937 )	(1,441 )	—	(80,378 )
Cash distributions received from equity investees - return of investment	20,155	—	7,309	—	(20,155 )	7,309
Investments in equity investees	(169,421 )	—	(52,226 )	—	170,216	(51,431 )
Acquisitions	—	—	(205,576 )	—	—	(205,576 )
Repayments on loan to non-guarantor subsidiary	—	—	1,987	—	(1,987 )	—
Other, net	—	—	534	(795 )	—	(261 )
Net cash used in by investing activities	(149,266 )	—	(326,909 )	(2,236 )	148,074	(330,337 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Borrowings on senior secured credit facility	700,700	—	—	—	—	700,700
Repayments on senior secured credit facility	(665,000 )	—	—	—	—	(665,000 )
Proceeds from issuance of senior unsecured notes, including premium	101,000	—	—	—	—	101,000
Senior unsecured notes issuance costs	(2,690 )	—	—	—	—	(2,690 )
Issuance of ownership interests to partners for cash	169,421	—	169,421	795	(170,216 )	169,421
Distributions to partners/owners	(67,445 )	—	(67,445 )	(8,750 )	76,195	(67,445 )
Other, net	—	—	(1,403 )	(1,270 )	1,970	(703 )
Net cash provided by (used in) financing activities	235,986	—	100,573	(9,225 )	(92,051 )	235,283
Net (decrease) increase in cash and cash equivalents	(1 )	—	5,471	(1,245 )	—	4,225
Cash and cash equivalents at beginning of period	3	—	9,182	1,632	—	10,817
	\$ 2	\$ —	\$ 14,653	\$ 387	\$ —	\$ 15,042

Cash and cash equivalents at  
end of period

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GENESIS ENERGY, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Unaudited Condensed Consolidating Statement of Cash Flows

Six Months Ended June 30, 2011

	Genesis Energy, L.P. (Parent and Co-Issuer)	Genesis Energy Finance Corporation (Co-Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Genesis Energy, L.P. Consolidated
Net cash (used in) provided by operating activities	\$(45,998 )	\$ —	\$53,434	\$ 1,971	\$ 15	\$9,422
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Payments to acquire fixed and intangible assets	—	—	(9,328 )	—	—	(9,328 )
Cash distributions received from equity investees - return of investment	52,189	—	6,096	—	(52,189 )	6,096
Investments in equity investees	—	—	(194 )	—	—	(194 )
Repayments on loan to non-guarantor subsidiary	—	—	1,796	—	(1,796 )	—
Other, net	—	—	1,041	—	—	1,041
Net cash provided by (used in) investing activities	52,189	—	(589 )	—	(53,985 )	(2,385 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Borrowings on senior secured credit facility	267,900	—	—	—	—	267,900
Repayments on senior secured credit facility	(221,900 )	—	—	—	—	(221,900 )
Distributions to partners/owners	(52,189 )	—	(52,189 )	—	52,189	(52,189 )
Other, net	—	—	(1,176 )	(1,781 )	1,781	(1,176 )
Net cash used in financing activities	(6,189 )	—	(53,365 )	(1,781 )	53,970	(7,365 )
Net increase (decrease) in cash and cash equivalents	2	—	(520 )	190	—	(328 )
Cash and cash equivalents at beginning of period	1	—	5,082	679	—	5,762
Cash and cash equivalents at end of period	\$3	\$ —	\$4,562	\$ 869	\$—	\$5,434

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

The following information should be read in conjunction with our Unaudited Condensed Consolidated Financial Statements and accompanying notes included in this quarterly report on Form 10-Q. The following information and such Unaudited Condensed Consolidated Financial Statements should also be read in conjunction with the audited financial statements and related notes, together with our discussion and analysis of financial position and results of operations, included in our Annual Report on Form 10-K.

Included in Management’s Discussion and Analysis are the following sections:

- Overview
- Acquisition
- Financial Measures
- Results of Operations
- Liquidity and Capital Resources
- Commitments and Off-Balance Sheet Arrangements
- Forward Looking Statements

Overview

We reported net income of \$18.6 million, or \$0.23 per common unit during the three months ended June 30, 2012 (“2012 Quarter”) compared to net income of \$17.4 million or \$0.27 per common unit during the three months ended June 30, 2011 (“2011 Quarter”). The significant factors affecting net income were improved operating results by two of our business segments partially offset by increases in general and administrative expense, depreciation and amortization expense and interest costs. A more detailed discussion of our segment results and other costs is included below in “Results of Operations”.

Segment Margin (as described below in “Financial Measures”) increased by \$15.2 million, or 32%, in the 2012 Quarter, as compared to the 2011 Quarter. This increase resulted from improvement in Segment Margin in our pipeline transportation and supply and logistics segments of 23% and 110%, respectively, partially offset by a 9% decrease in our refinery services segment. The contribution from our recently acquired interests in certain Gulf of Mexico pipelines and higher crude oil tariff revenues were the primary factors increasing pipeline transportation Segment Margin. Results for our pipeline transportation segment were somewhat reduced due to ongoing maintenance at several dedicated fields that significantly reduced throughput on one of our major offshore pipelines, however we expect this maintenance to be completed in the third quarter of 2012. Our refinery services Segment Margin decreased primarily as a result of increased costs due to longer than anticipated refinery turnarounds at some of our largest refinery service locations. To ensure uninterrupted supplies to our customers, we incurred increased costs as a result of processing at less efficient locations. Our supply and logistics segment benefited from acquisitions and other growth initiatives completed in the second half of 2011 as well as higher volumes due to increased industry activity in our operational areas.

Available Cash before Reserves increased \$11.3 million, or 35%, in the 2012 Quarter to \$43.2 million consistent with the increase in net income described above. See “Financial Measures” below for additional information on Available Cash before Reserves.

Distribution Increase

In July 2012, we declared our twenty-eighth consecutive increase in our quarterly distribution to our common unitholders relative to the second quarter of 2012. During this period, twenty-three of those quarterly increases have been 10% or greater year-over-year. In August 2012, we will pay a distribution of \$0.46 per unit representing a 10.8% increase from our distribution of \$0.4150 per unit related to the second quarter of 2011. During the second quarter of 2012, we paid a distribution of \$0.45 per unit related to the first quarter of 2012.

Acquisition

In January 2012, we acquired from Marathon Oil Company interests in several Gulf of Mexico crude oil pipeline systems. The acquired pipeline interests include a 28% interest in Poseidon Oil Pipeline Company, L.L.C. (or “Poseidon”), a 100% interest in Marathon Offshore Pipeline, LLC (subsequently re-named GEL Offshore Pipeline, LLC, or “GOPL”) and a 29% interest in Odyssey Pipeline L.L.C. (or “Odyssey”). GOPL owns a 23% interest in the Eugene Island crude oil pipeline system and a 100% interest in two smaller offshore pipelines. The purchase price, net

of post-closing adjustments, was \$205.6 million. We funded the purchase price with cash available under our credit facility.

This acquisition complements our existing infrastructure in the Gulf of Mexico and enhances our ability to provide capacity and market optionality to producers for their existing and future developments as well as our refining customers



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onshore Texas and Louisiana. The Poseidon pipeline system is comprised of a 367-mile network of crude oil pipelines, varying in diameter from 16 to 24 inches, with capacity to deliver approximately 400,000 barrels per day of crude oil from developments in the central and western offshore Gulf of Mexico to other pipelines and terminals onshore and offshore Louisiana. Affiliates of Enterprise Products and Shell each own a 36% interest in Poseidon. An affiliate of Enterprise Products serves as the operator of Poseidon. The Eugene Island pipeline system is primarily comprised of a 183-mile network of crude oil pipelines, the main pipeline of which is 20 inches in diameter, with capacity to deliver approximately 200,000 barrels per day of crude oil from developments in the central Gulf of Mexico to other pipelines and terminals onshore Louisiana. Other owners in Eugene Island include affiliates of Exxon-Mobil, Chevron-Texaco, ConocoPhillips and Shell. An affiliate of Shell serves as the operator of Eugene Island. The Odyssey pipeline system is comprised of a 120-mile network of crude oil pipelines, varying in diameter from 12 to 20 inches, with capacity to deliver up to 300,000 barrels per day of crude oil from developments in the eastern Gulf of Mexico to other pipelines and terminals onshore Louisiana. An affiliate of Shell owns the remaining 71% interest in Odyssey, and an affiliate of Shell serves as the operator of Odyssey.

### Financial Measures

In the discussions that follow, we will focus on our revenues, expenses and net income, as well as two measures that we use to manage the business and to review the results of our operations. Those two measures are Segment Margin and Available Cash before Reserves.

#### Segment Margin

We define Segment Margin as revenues less product costs, operating expenses (excluding non-cash charges such as depreciation and amortization), and segment general and administrative expenses, plus our equity in distributable cash generated by our equity investees. In addition, our Segment Margin definition excludes the non-cash effects of our stock appreciation rights plan and includes the non-income portion of payments received under direct financing leases. Our chief operating decision maker (our Chief Executive Officer) evaluates segment performance based on a variety of measures including Segment Margin, segment volumes where relevant, and capital investment. A reconciliation of Segment Margin to income before income taxes is included in our segment disclosures in Note 9 to our Unaudited Condensed Consolidated Financial Statements.

#### Available Cash before Reserves

This quarterly report includes the financial measure of Available Cash before Reserves, which is a “non-GAAP” measure because it is not contemplated by or referenced in accounting principles generally accepted in the U.S., also referred to as GAAP. The accompanying schedule below provides a reconciliation of this non-GAAP financial measure to its most directly comparable GAAP financial measure. Our non-GAAP financial measure should not be considered as an alternative to GAAP measures such as net income, operating income, cash flow from operating activities or any other GAAP measure of liquidity or financial performance. We believe that investors benefit from having access to the same financial measures being utilized by management, lenders, analysts, and other market participants.

Available Cash before Reserves, also referred to as distributable cash flow, is commonly used as a supplemental financial measure by management and by external users of financial statements, such as investors, commercial banks, research analysts and rating agencies, to assess: (1) the financial performance of our assets without regard to financing methods, capital structures, or historical cost basis; (2) the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness; (3) our operating performance and return on capital as compared to those of other companies in the midstream energy industry, without regard to financing and capital structure; and (4) the viability of projects and the overall rates of return on alternative investment opportunities. Because Available Cash before Reserves excludes some items that affect net income or loss and because these measures may vary among other companies, the Available Cash before Reserves data presented in this Quarterly Report on Form 10-Q may not be comparable to similarly titled measures of other companies.

Available Cash before Reserves is a performance measure used by our management to compare cash flows generated by us to the cash distribution paid to our common unitholders. This is an important financial measure to our public unitholders since it is an indicator of our ability to provide a cash return on their investment. Specifically, this financial measure aids investors in determining whether or not we are generating cash flows at a level that can support

a quarterly cash distribution to the partners. Lastly, Available Cash before Reserves is the quantitative standard used throughout the investment community with respect to publicly-traded partnerships.

Available Cash before Reserves is net income as adjusted for specific items, the most significant of which are the addition of non-cash expenses (such as depreciation and amortization), the substitution of distributable cash generated by our equity investees in lieu of our equity income attributable to our equity investees, the elimination of gains and losses on asset sales (except those from the sale of surplus assets) and unrealized gains and losses on derivative transactions not designated as

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hedges for accounting purposes, the elimination of expenses related to acquiring or constructing assets that provide new sources of cash flows, and the subtraction of maintenance capital expenditures, which are expenditures that are necessary to sustain existing (but not to provide new sources of) cash flows.

Available Cash before Reserves for the periods presented below was as follows:

	Three Months Ended June 30,	
	2012	2011
	(in thousands)	
Net income	\$18,584	\$17,358
Depreciation and amortization	15,357	14,253
Cash received from direct financing leases not included in income	1,249	1,141
Cash effects of sales of certain assets	767	1,413
Effects of distributable cash generated by equity method investees not included in income	6,752	4,921
Cash effects of equity-based compensation plans	(477	) (716
Non-cash equity-based compensation expense (benefit)	1,013	(270
Expenses related to acquiring or constructing assets that provide new sources of cash flow	180	1,466
Unrealized loss (gain) on derivative transactions excluding fair value hedges	816	(6,968
Maintenance capital expenditures	(806	) (610
Non-cash tax benefit	(402	) (124
Other items, net	181	80
Available Cash before Reserves	\$43,214	\$31,944

## Results of Operations

## Revenues and Costs and Expenses

Our revenues for the 2012 Quarter increased \$159.9 million, or 21% from the 2011 Quarter. Additionally, our costs and expenses increased \$158.1 million, or 21% between the two periods.

Our revenues for the six months ended June 30, 2012 increased \$403 million, or 28% from the six months ended June 30, 2011. Costs and expenses increased \$387.4 million, or 27% between the two six month periods.

The majority of our revenues and costs are derived from the purchase and sale of crude oil and petroleum products. The significant increase in our revenues and costs between the two second quarter and six month periods is primarily attributable to increased volumes from our continuing operations and our acquisitions, partially offset by decreases in the market prices for crude oil and petroleum products as described below.

Volumes increased in our supply and logistics segment by 30% quarter to quarter and 26% between the six month periods as explained in our supply and logistics Segment Margin discussion below. The average closing prices for West Texas Intermediate ("WTI") crude oil on the New York Mercantile Exchange ("NYMEX") decreased 9% to \$93.49 per barrel in the second quarter of 2012, as compared to \$102.56 per barrel in the second quarter of 2011. Average closing prices for WTI crude oil on the NYMEX were consistent between the six month periods at approximately \$98 per barrel.

## Segment Margin

The contribution of each of our segments to total Segment Margin in the three and six months ended June 30, 2012 and 2011 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Pipeline transportation	\$20,785	\$16,927	\$46,132	\$34,609
Refinery services	17,278	18,947	34,527	36,895
Supply and logistics	24,768	11,799	42,424	25,324

Total Segment Margin	\$62,831	\$47,673	\$123,083	\$96,828
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## Pipeline Transportation Segment

Operating results and volumetric data for our pipeline transportation segment are presented below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Crude oil tariffs and revenues from direct financing leases - onshore crude oil pipelines	\$7,312	\$5,867	\$14,103	\$11,200
Segment margin from offshore crude oil pipelines, including pro-rata share of distributable cash from equity investees	7,573	4,518	18,187	10,038
CO <sub>2</sub> tariffs and revenues from direct financing leases of CO <sub>2</sub> pipelines	6,447	6,212	13,038	12,858
Sales of crude oil pipeline loss allowance volumes	1,530	2,109	4,783	3,628
Onshore pipeline operating costs, excluding non-cash charges for equity-based compensation and other non-cash expenses	(3,554)	(3,180)	(6,923)	(5,771)
Payments received under direct financing leases not included in income	1,249	1,141	2,470	2,254
Other	228	260	474	402
Segment Margin	\$20,785	\$16,927	\$46,132	\$34,609

## Volumetric Data (barrels/day unless otherwise noted):

## Onshore crude oil pipelines:

Jay	18,100	16,655	18,460	15,803
Texas	53,653	47,091	49,094	46,971
Mississippi	18,930	21,133	18,597	20,883

## Offshore crude oil pipelines:

CHOPS <sup>(1)</sup>	43,407	108,964	72,468	139,666
Poseidon <sup>(1) (2)</sup>	214,470	—	202,108	—
Odyssey <sup>(1) (2)</sup>	36,091	—	38,080	—
GOPL <sup>(2)</sup>	18,125	—	21,367	—

CO<sub>2</sub> pipeline (Mcf/day):

Free State	166,289	131,683	172,150	153,220
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(1) Volumes for our equity method investees are presented on a 100% basis.

(2) Acquired in January 2012.

Three Months Ended June 30, 2012 Compared with Three Months Ended June 30, 2011

Pipeline transportation Segment Margin for the 2012 Quarter increased \$3.9 million, or 23%. The significant components of this change were as follows:

Crude oil tariff revenues of onshore crude oil pipelines increased \$1.4 million primarily due to upward tariff indexing for our FERC regulated pipelines effective in July 2011.

Segment Margin from our offshore crude oil pipelines increased \$3.1 million reflecting a \$7 million contribution from our recently acquired interests in the Gulf of Mexico pipelines. The increase was partially offset by lower volumes transported on CHOPS of approximately 66,000 barrels per day as a result of ongoing improvements by producers at the connected production fields, however we expect this maintenance to be completed in the third quarter of 2012.

The contribution to Segment Margin by CHOPS declined by \$3.9 million from the 2011 Quarter.

Six Months Ended June 30, 2012 Compared with Six Months Ended June 30, 2011.

Segment Margin for our pipeline transportation segment increased \$11.5 million, or 33%, between the six month periods. The significant components of this change were as follows:



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Crude oil tariff revenues of onshore crude oil pipelines increased \$2.9 million primarily due to upward tariff indexing for our FERC regulated pipelines effective in July 2011.

Segment Margin from our offshore crude oil pipelines increased \$8.1 million reflecting a \$14.5 million contribution from our recently acquired interests in the Gulf of Mexico pipelines. The increase was partially offset by lower volumes transported on CHOPS of approximately 67,000 barrels per day as a result of ongoing improvements by producers at the connected production fields, however we expect this maintenance to be completed in the third quarter of 2012. The contribution to Segment Margin by CHOPS declined by \$6.4 million as compared to the first six months of 2011.

Revenues from sales of pipeline loss allowance volumes improved Segment Margin by \$1.2 million due to an increase of approximately 7,000 barrels sold in the first half of 2012 compared to the first half of 2011.

Onshore pipeline operating costs, excluding non-cash charges, increased \$1.2 million due to increased variable operating costs and employee compensation and related benefit costs, and remained relatively constant on a per barrel basis during each of those periods.

## Refinery Services Segment

Operating results for our refinery services segment were as follows:

	Three Months Ended		Six Months Ended		
	June 30,	2011	June 30,	2011	
	2012		2012		
Volumes sold (in Dry short tons "DST"):					
NaHS volumes	39,184	36,080	72,949	73,313	
NaOH (caustic soda) volumes	14,670	26,209	35,588	50,849	
Total	53,854	62,289	108,537	124,162	
Revenues (in thousands):					
NaHS revenues	\$40,239	\$36,459	\$77,034	\$73,258	
NaOH (caustic soda) revenues	8,447	12,004	20,275	22,243	
Other revenues	1,889	2,871	3,639	5,416	
Total external segment revenues	\$50,575	\$51,334	\$100,948	\$100,917	
Segment Margin (in thousands)	\$17,278	\$18,947	\$34,527	\$36,895	
Average index price for NaOH per DST <sup>(1)</sup>	\$548	\$495	\$559	\$468	
Raw material and processing costs as % of segment revenues	51	% 41	% 49	% 42	%

(1) Source: Harriman Chemsult Ltd.

Three Months Ended June 30, 2012 Compared with Three Months Ended June 30, 2011

Refinery services Segment Margin for the 2012 Quarter decreased \$1.7 million, or 9%. The significant components of this fluctuation were as follows:

NaHS sales volumes increased 9% between the quarterly periods primarily due to higher sales to South American customers in the 2012 Quarter. Sales volumes between quarters to customers in South America can fluctuate due to timing of deliveries.

NaHS revenues increased primarily as a function of the increase in the average index price for caustic soda and increased sales volumes. The pricing in our sales contracts for NaHS includes adjustments for fluctuations in commodity benchmarks, freight, labor, energy costs and government indexes. The frequency at which these adjustments are applied varies by contract, geographic region and supply point.

Our raw material costs related to NaHS increased correspondingly to the rise in the average index price for caustic soda. In addition, in the second quarter of 2012, longer than anticipated refinery





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turnarounds at some of our largest refinery service locations resulted in increased costs as a result of processing at less efficient locations to ensure uninterrupted supplies to our customers.

Caustic soda sales volumes decreased 44% primarily due to turnarounds at some of our refinery customers. Although caustic sales volumes may fluctuate, the contribution to Segment Margin from these sales is not a significant portion of our refinery services activities. Caustic soda is a key component in the provision of our sulfur-removal service, from which we receive the by-product NaHS. Consequently, we are a very large consumer of caustic soda. In addition, our economies of scale and logistics capabilities allow us to effectively purchase additional caustic soda for re-sale to third parties. Our ability to purchase caustic soda volumes is currently sufficient to meet the demands of our refinery services operations and third-party sales.

Average index prices for caustic soda increased to \$548 per DST in the second quarter of 2012 compared to \$495 per DST during the second quarter of 2011. Those price movements affect the revenues and costs related to our sulfur removal services as well as our caustic soda sales activities. However, generally changes in caustic soda prices do not materially affect Segment Margin attributable to our sulfur processing services because we usually pass those costs through to our NaHS sales customers. Additionally, our bulk purchase and storage capabilities related to caustic soda allow us to mitigate the effects of changes in index prices for caustic on our operating costs.

Six Months Ended June 30, 2012 Compared with Six Months Ended

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 nine persons receiving the greatest number of votes will be elected to serve as directors. Therefore, any shares that are not voted and votes that are withheld will not influence the outcome of the election of directors. Brokers who have not received voting instructions from the beneficial owner do not have the discretionary authority to vote on the election of directors. Therefore, broker nonvotes will not be considered in the vote totals and will have no effect on the vote regarding 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.

Proposal No. 2 - Ratification of the appointment of auditors requires the affirmative vote of a majority of the shares having voting power on such matter that are present or represented at the Annual Meeting. 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. For the purpose of determining whether the proposal 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.

Proposal No. 3 - Advisory vote to approve the compensation of executive officers is advisory in nature and will not be binding on or overrule any decisions by our Board of Directors or the Compensation Committee of our Board of Directors. However, the Board of Directors and the Compensation Committee value the opinions of our stockholders and, to the extent that there is any significant vote against the compensation of our executive officers, we will consider our stockholders' concerns, and our Board of Directors will evaluate whether any actions are necessary to address those concerns. Brokers do not have discretionary authority to vote on the advisory vote to approve executive compensation. Consequently, broker nonvotes will not be considered in the vote totals for this proposal and will have no effect on the vote. For the purpose of determining whether the proposal 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.

Proposal No. 4 - Approval of the amendment to our Restated Certificate of Incorporation requires the affirmative vote of a majority of TETRA's outstanding shares. This proposal is considered to be a routine matter on which brokers may vote in their discretion on behalf of beneficial owners who have not provided voting instructions. To the extent we receive any broker non-votes on this proposal, they will have the same effect as a vote against this proposal. For the purpose of determining whether the proposal 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.

Proposal No. 5 - Approval of the amendment and restatement of our Second Amended and Restated 2011 Long Term Incentive Compensation Plan to increase the number of shares of common stock available under the plan for issuance requires the affirmative vote of a majority of the shares having voting power on such matter that are present or represented at the Annual Meeting. Brokers do not have discretionary authority to vote on this proposal. Consequently, broker nonvotes will not be considered in the vote totals for this proposal and will have no effect on the vote. For the purpose of determining whether the proposal 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.

In addition to the vote required by our bylaws described above, under the New York Stock Exchange (“NYSE”) rules, approval of this proposal requires approval of a majority of votes cast on the proposal. The NYSE takes the position that a broker non-vote is not a “vote cast.” Accordingly, broker non-votes will have no effect on the outcome of the vote on this matter. However, abstentions will be counted by the NYSE as a vote cast and will be treated as a vote against the proposal.

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 or submitted via the internet or by telephone prior to the Annual Meeting will be voted. If you return or submit 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 approval of the compensation of executive officers;

FOR the amendment of our Restated Certificate of Incorporation; and

FOR the amendment and restatement of our Second Amended and Restated 2011 Long Term 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 Computershare Trust Company, N.A.

**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 delivering the Notice of the Annual Meeting, the Notice, 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.

#### Householding of Annual Meeting Materials

SEC rules regarding the delivery of the notice of internet availability, proxy statements and annual reports permit us, in specified circumstances, to deliver a single set of these reports to any address at which two or more stockholders reside. This method of delivery, often referred to as “householding,” will reduce the amount of duplicative information that security holders receive and lower printing and mailing costs for us. Each stockholder will continue to receive a separate proxy card.

We have delivered only one notice of internet availability of the proxy materials or one paper copy proxy statement and annual report, as applicable, to eligible stockholders who share an address, unless we received contrary instructions from any such stockholder prior to the mailing date. If a stockholder prefers to receive separate copies of our notice of internet availability of proxy materials or our proxy statement or annual report, either now or in the future, we will promptly deliver, upon written or oral request, a separate copy of the notice of internet availability of proxy materials or our proxy statement or annual report, as requested, to that stockholder at the

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shared address to which a single copy was delivered. Such requests should be communicated to our transfer agent, Computershare Investor Services, either by sending a request in writing to 350 Indiana Street, Suite 800, Golden, Colorado 80401, or by calling (303) 262-0600.

If you are currently a stockholder sharing an address with another stockholder and wish to have only one notice of internet availability of proxy materials or proxy statement and annual report delivered to the household in the future, please contact Computershare at the address or telephone number indicated above.

By order of the Board of Directors,

Kimberly M. O'Brien  
Corporate Secretary  
March \_\_, 2016  
The Woodlands, Texas

Appendix A

TETRA TECHNOLOGIES, INC.

SECOND THIRD AMENDED AND RESTATED  
2011 LONG TERM INCENTIVE COMPENSATION PLAN

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TETRA TECHNOLOGIES, INC.

SECONDTHIRD AMENDED AND RESTATED  
2011 LONG TERM INCENTIVE COMPENSATION PLAN

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TETRA TECHNOLOGIES, INC.  
SECONDTHIRD AMENDED AND RESTATED  
2011 LONG TERM INCENTIVE COMPENSATION PLAN

ARTICLE I  
INTRODUCTION

1.1 Purpose. This TETRA Technologies, Inc. Second Third Amended and Restated 2011 Long Term Incentive Compensation Plan (the Plan) amends and restates the TETRA Technologies, Inc. 2011 Long Term Incentive Compensation Plan (as previously amended and restated, the Original Plan) and is intended to promote the interests of TETRA Technologies, Inc., a Delaware corporation, (the Company) and its stockholders by encouraging Employees, Consultants and Non-Employee Directors of the Company or its Affiliates (as defined below) to acquire or increase their equity interests in the Company, thereby giving them an added incentive to work toward the continued growth and success of the Company, and to encourage them to remain with and devote their best efforts to the business of the Company thereby advancing the interests of the Company and its stockholders. The Board of Directors of the Company (the Board) also contemplates that through the Plan, the Company and its Affiliates will be better able to compete for the services of the individuals needed for the continued growth and success of the Company. The Plan provides for payment of various forms of incentive compensation and accordingly is not intended to be a plan that is subject to the Employee Retirement Income Security Act of 1974, as amended, and shall be administered accordingly.

1.2 Definitions. As used in the Plan, the following terms shall have the meanings set forth below:

Affiliate means (i) any entity in which the Company, directly or indirectly, owns 10% or more of the combined voting power, as determined by the Committee, (ii) any “parent corporation” of the Company (as defined in Section 424(e) of the Code), (iii) any “subsidiary corporation” of any such parent corporation (as defined in Section 424(f) of the Code) of the Company and (iv) any trades or businesses, whether or not incorporated which are members of a controlled group or are under common control (as defined in Sections 414(b) or (c) of the Code) with the Company; provided, that, for the purpose of issuing Options or Stock Appreciation Rights, “Affiliate” means any corporation or other entity in a chain of corporations and/or other entities in which the Company has a “controlling interest” within the meaning of Treas. Reg. § 1.414(c)-2(b)(2)(i), but using the threshold of 50% ownership wherever 80% appears.

Awards means, collectively, Options, Bonus Stock, Stock Appreciation Rights, Restricted Stock or Performance Awards.

Board means the board of directors of the Company described in Section 1.1 of the Plan.

Bonus Stock means Common Stock described in Article IV of the Plan.

Change in Control shall be deemed to have occurred upon any of the following events:

(i) any “person” (as defined in Section 3(a)(9) of the Exchange Act, and as modified in Section 13(d) and 14(d) of the Exchange Act) other than (A) the Company or any of its majority subsidiaries, (B) any employee benefit plan of the Company or any of its subsidiaries, (C) or any Affiliate (as determined immediately prior to such event), (D) a company owned, directly or indirectly, by stockholders of the Company in substantially the same proportions as their ownership of the Company, or (E) an underwriter temporarily holding securities pursuant to an offering of such securities (a Person), becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the shares of voting stock of the Company then outstanding;

(ii) the consummation of any merger, reorganization, business combination or consolidation of the Company or one of its subsidiaries with or into any other company, other than a merger, reorganization, business combination or consolidation which would result in the holders of the voting securities of the Company outstanding immediately prior thereto holding securities which represent immediately after such merger, reorganization, business combination or consolidation more than 50% of the combined voting power of the voting securities of the Company or the surviving company or the parent of such surviving company;

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(iii) the consummation of a sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition if the holders of the voting securities of the Company outstanding immediately prior thereto hold securities immediately thereafter which represent more than 50% of the combined voting power of the voting securities of the acquiror, or parent of the acquiror, of such assets;

(iv) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company; or

(v) individuals who, as of the Effective Date, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board, shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an election contest with respect to the election or removal of directors or other solicitation of proxies or consents by or on behalf of a person other than the Board.

Notwithstanding the foregoing, however, in any circumstance or transaction in which compensation resulting from or in respect of an Award would be subject to the income tax under Section 409A of the Code if the foregoing definition of "Change in Control" were to apply, but would not be so subject if the term "Change in Control" were defined herein to mean a "change in control event" within the meaning of Treas. Reg. § 1.409A-3(i)(5), then "Change in Control" shall mean a transaction, event or circumstance that constitutes a Change in Control as defined above and that also constitutes a "change in control event" within the meaning of Treas. Reg. § 1.409A-3(i)(5), but only to the extent necessary to prevent such compensation from becoming subject to the income tax under Section 409A of the Code.

Code means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations thereunder.

Committee means the Compensation Committee of the Board which shall consist of not less than three members of the Board, each of whom shall qualify as a "non-employee director" (as that term is defined in Rule 16b-3 of the General Rules and Regulations under the Exchange Act) appointed by and serving at the pleasure of the Board to administer the Plan or, if none, the Board; provided however, that with respect to any Award granted to a Covered Employee which is intended to be "performance-based compensation" as described in Section 162(m)(4)(C) of the Code, the Committee shall consist solely of two or more "outside directors" as described in Section 162(m)(4)(C)(i) of the Code.

Common Stock means the common stock, \$0.01 par value per share of the Company.

Company means the corporation described in Section 1.1 of the Plan or any successor thereto which assumes and continues the Plan.

Consultant means any individual, other than a Director or an Employee, who renders consulting or advisory services to the Company or an Affiliate, provided such services are not in connection with the offer or sale of securities in a capital raising transaction.

Covered Employee means any of the Chief Executive Officer of the Company and the three highest paid officers of the Company other than the Chief Executive Officer or the Chief Financial Officer as described in Section 162(m)(3) of the Code or any individual Consultant, Director or other Employee, or class of Consultants, Directors or Employees, who the Committee specifies in an Award shall be treated as a Covered Employee.

Disability means an inability to perform the Participant's material services for the Company for a period of 90 consecutive days or a total of 180 days, during any 365-day period, in either case as a result of incapacity due to mental or physical illness, which is determined to be total and permanent. A determination of Disability shall be made by a physician satisfactory to both the Participant (or his guardian) and the Company, provided that if the Participant (or his guardian) and the Company do not agree on a physician, the Participant and the Company shall each select a physician and these two together shall select a third physician, whose

determination as to Disability shall be final, binding and conclusive with respect to all parties. Notwithstanding the above, eligibility for disability benefits under any policy for long-term disability benefits provided to the Participant by the Company shall conclusively establish the Participant's disability. In the case of any Award that is or becomes subject to Section 409A of the Code, "Disability" means a condition that meets the requirements of Treas. Reg. § 1.409A-3(i)(4).

Effective Date means May 3, 2011, the date on which the Original Plan was initially approved by stockholders of the Company. The provisions of the Original Plan, as amended from time to time including, without limitation, the Plan, shall be applicable to all Awards granted on or after the Effective Date.

Employee means any employee of the Company or an Affiliate.

Employment means any period in which a Participant is an Employee of the Company or an Affiliate.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Fair Market Value or FMV Per Share means, as of any given date, the closing price per share on the principal exchange or over-the-counter market on which such shares are trading, if any, or as reported on any composite index which includes such principal exchange, or if no trade of the Common Stock shall have been reported for such date, the closing price quoted on such exchange or market for the immediately preceding date on which such shares were traded. The term "closing price" on any given day shall mean (i) if the shares of Common Stock are listed or admitted for trading on a national securities exchange, the last reported sales price on such day, or (ii) if the shares of Common Stock are not listed or admitted for trading on a national securities exchange, the last transaction price on such day of the shares of Common Stock on the Nasdaq Market, Inc. ("NASDAQ"). If shares of the Common Stock are not listed or admitted to trading on any exchange, over-the-counter market or any similar organization on any given day, the FMV Per Share shall be determined by the Committee in good faith using any fair and reasonable means selected in its discretion.

Full Value Award means an Award that is settled by the issuance of shares of common stock, other than an Option or a Stock Appreciation Right.

Incentive Option means any option that satisfies the requirements of Code Section 422 and is granted pursuant to Article III of the Plan.

Incumbent Board means the Board described in paragraph (v) of the definition of Change in Control under Section 1.2 of the Plan.

Non-Employee Director means a person who is a member of the Board but who is neither an Employee nor a Consultant of the Company or any Affiliate.

Nonqualified Option means an option not intended to satisfy the requirements of Code Section 422 and which is granted pursuant to Article II of the Plan.

Option means an option to acquire Common Stock granted pursuant to the provisions of the Plan, and refers to either an Incentive Stock Option or a Nonqualified Stock Option, or both, as applicable.

Option Expiration Date means the date determined by the Committee which shall not be more than ten years after the date of grant of an Option.

Optionee means a Participant who has received or will receive an Option.

Original Plan has the meaning set forth in the definition of Effective Date under Section 1.2 of the Plan.

Participant means any Non-Employee Director, Employee or Consultant granted an Award under the Plan.

Performance Award means an Award granted pursuant to Article VII of the Plan which, if earned, will afford the Participant the right to receive shares of Common Stock, cash or any combination thereof as determined by the Committee.

Plan means the plan described in Section 1.1 of the Plan and set forth in this document, as amended from time to time.

Restricted Period means the period established by the Committee with respect to an Award during which the Award either remains subject to forfeiture or is not exercisable by the Participant.

Restricted Stock means one or more shares of Common Stock prior to the lapse of restrictions thereon, granted under Article VI of the Plan.

Retirement means termination of Employment of an Employee or termination of service of a Non-Employee Director or Consultant, in each case under circumstances as shall constitute retirement as determined by the Committee.

Securities Act means the Securities Act of 1933, as amended.

Spread means the amount determined pursuant to Section 5.1(a) of the Plan.

Stock Appreciation Right means an Award granted pursuant to Article V of the Plan.

1.3 Shares Subject to the Plan. Subject to adjustment as provided in this Plan, the maximum number of shares of Common Stock that may be covered by Awards granted under the Plan shall be 5,600,000 11,000,000 shares, and of that number the maximum aggregate number of shares of Common Stock that may be issued under the Plan through Options is 5,600,000 11,000,000 shares, all or any portion of which may be Incentive Options. Solely for the purposes of implementing the limitation of the immediately preceding sentence, 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 on the date of grant. An Award of a share of Bonus Stock or Restricted Stock shall be deemed to be an Award of 1.38 shares of Common Stock for every one share granted on the date of grant. With respect to any Performance Award to be settled in shares of Common Stock, the value of the maximum benefit that may be paid under the Performance Award shall be divided by the FMV 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 1.38 shares of Common Stock for purposes of implementing the limitation on shares set forth in the first sentence of this Section 1.3. If the number of shares of Common Stock issued in settlement of the Performance Award exceeds the number determined to be issued on the date of grant in accordance with the preceding sentence, each such additional share of Common Stock issued shall be deemed to be an Award of 1.38 shares of Common Stock for the purposes of implementing the limitation on shares set forth in the first sentence of this Section 1.3. In addition, during any calendar year, the maximum number of shares of Common Stock underlying Awards (other than Performance Awards) granted to any one Participant in such calendar year shall not exceed 400,000 shares. The maximum amount of compensation (whether denominated or payable in shares of Common Stock, cash, other Awards or other property) that any one Participant may receive in any calendar year in respect of Performance Awards may not exceed, in the aggregate, \$2,000,000.

Notwithstanding the above, in the event that at any time after the Effective Date the outstanding shares of Common Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of a merger, consolidation, recapitalization, reclassification, stock split, stock dividend, combination of shares or the like, the aggregate number and class of securities available under the Plan shall, subject to any required action by the stockholders of the Company, be ratably adjusted by the Committee. Upon the occurrence of any of the events described in the immediately preceding sentence, in order to ensure that after such event the shares of Common Stock subject to the Plan and each Participant's proportionate interest shall be maintained substantially as before the



occurrence of such event, the Committee shall, in such manner as it may deem equitable, adjust (i) the number of shares of Common Stock with respect to which Awards may be granted under the Plan, (ii) the maximum number of shares of Common Stock that may be covered by Awards to any single individual during any calendar year, (iii) the number of shares of Common Stock subject to outstanding Awards, (iv) the grant or exercise price with respect to an Award, and (v) the ratio for the determination of Full Value Awards as set forth above in this Section 1.3; provided, however, that (A) with respect to Incentive Stock Options, such

adjustment shall be made in accordance with Section 424 of the Code, and (B) with respect to all Awards, such adjustment shall be effected in a manner, along with any other changes or adjustments as the Committee shall deem appropriate, to ensure (1) that any Award that is not subject to, or that complies with, Section 409A of the Code shall continue to be not subject to, or continue to comply with Section 409A of the Code, (2) any Award that was intended to comply with the exemption for “performance-based compensation” under Section 162(m) of the Code shall continue to so comply, and (3) the changes and adjustments do not result in any material reduction in the benefit of the Award to the Participant without the consent of the Participant.

In the event the number of shares to be delivered upon the exercise or payment of any Award granted under the Plan is reduced for any reason other than the withholding of shares for payment of taxes or exercise price, or in the event any Award (or portion thereof) granted under the Plan can no longer under any circumstances be exercised or paid, the number of shares no longer subject to such Award shall thereupon be released from such Award and shall thereafter be available for the grant of additional Awards under the Plan in the same amount as such shares were counted against the limit set forth in the first paragraph of this Section 1.3. If any Performance Award granted under this Plan may only be settled in cash, such Award shall not be counted against the maximum number of shares that may be covered by Awards granted under the Plan as set forth in the first paragraph of this Section 1.3. Shares of Common Stock that 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, shall no longer be subject to any further grant under the Plan. Notwithstanding anything to the contrary, (i) shares of Common Stock that are tendered, whether by physical delivery or by attestation, to the Company by a Participant or withheld from any Award by the Company as full or partial payment of the exercise price or purchase price of any Award shall not be added back to the maximum share limitations described above or thereafter be made available under the Plan for the grant of additional Awards; (ii) shares that are withheld from any Award by the Company in payment of any applicable tax withholding obligation in connection with the exercise, vesting or earning of any Award shall not be added back to the maximum share limitations described above or thereafter made available under the Plan for the grant of additional awards; and (iii) with respect to Stock Appreciation Rights, when a Stock Appreciation Right is exercised, the shares of Common Stock subject to such Stock Appreciation Right shall be counted against the shares available for issuance under the Plan as one share of Common Stock for every share subject thereto, regardless of the number of shares of Common Stock used to settle the Stock Appreciation Right upon exercise. Shares issued pursuant to the Plan (i) may be treasury shares, authorized but unissued shares or, if applicable, shares acquired in the open market and (ii) shall be fully paid and nonassessable. No fractional shares shall be issued under the Plan; payment for any fractional shares shall be made in cash.

Notwithstanding anything in the Plan to the contrary, the Committee may grant or amend Full Value Awards covering up to ten percent (10%) of the shares of Common Stock available for issuance pursuant to this Section 1.3, and awards of Stock Options and Stock Appreciation Rights covering up to fifteen percent (15%) of the shares of Common Stock available for issuance pursuant to this Section 1.3, without regard to the minimum vesting requirements of Article IV and Sections 2.5, 5.3 and 6.2(b) of the Plan.

#### 1.4 Administration of the Plan.

(a) The Plan shall be administered by the Committee. Subject to the provisions of the Plan, the Committee shall (i) select the Employees, Consultants and Non-Employee Directors to whom Awards may be granted hereunder, (ii) determine the type or types of Awards to be made, (iii) determine the size or number of shares to be subject to an Award, (iv) determine the terms and conditions of any Award, consistent with the terms of the Plan, which terms may include the time or times when Awards may be exercised (which may be based on performance criteria), any provision regarding the acceleration of vesting or waiver of forfeiture restrictions, and any other condition or limitation regarding an Award, based on such factors as the Committee, in its sole discretion, will determine, (v) determine, as to all or part of any Award as to any Participant, at the time the Award is granted or thereafter, whether, to the extent, and under what circumstances an Award may be vested, canceled, forfeited or surrendered (including the

acceleration of the exercisability or vesting of, or a waiver of the terms and conditions applicable to, any Award), in connection with the Participant's death, Disability, Retirement, a Change in Control, a termination of the Participant's Employment or termination of the Participant's service following a Change in Control, or such other circumstances as may be determined by the Committee, for any reason at any time; (vi) modify or amend each Award, including the discretionary acceleration of exercisability or vesting, the waiver of forfeiture restrictions or other terms and conditions applicable to an Award, and the authority to extend the post-termination exercisability period of Awards under the conditions set forth in the Plan, provided that any such extension may not

exceed the expiration date set forth in the Award, (vii) interpret the Plan and all Awards under the Plan, (viii) make, amend and rescind such rules as it deems necessary for the proper administration of the Plan, (ix) make all other determinations necessary or advisable for the administration of the Plan and (x) 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 the Committee deems desirable to effectuate the Plan. Any action taken or determination made by the Committee pursuant to this and the other paragraphs of the Plan shall be final, binding and conclusive on all affected persons, including the Company; any Affiliate; any grantee, holder or beneficiary of an Award; any stockholder; and any Employee, Consultant or Non-Employee Director. No member of the Board or of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award granted hereunder and the members of the Board and the Committee shall be entitled to indemnification and reimbursement by the Company and its Affiliates in respect of any claim, loss, damage or expense (including legal fees) arising therefrom to the full extent permitted by law.

(b) Subject to the following provisions, the Committee may from time to time delegate, to the extent permitted by law, some or all of its authority and powers under the Plan, including the authority to grant Awards under the Plan, to a committee consisting of one or more members of the Board; provided, however, that the Committee may not delegate its authority (i) to make Awards to any Participant (A) who is, or is expected to be, a Covered Employee, or (B) who is, or is expected to become, subject to Section 16 of the Exchange Act, (ii) to interpret the Plan or any Award, or (iii) to amend any Award or to accelerate the vesting or lapse of any restrictions on any Award. Any delegation hereunder shall be subject to such other restrictions and limitations that the Committee specifies at the time of such delegation or thereafter. Nothing in the Plan shall be construed as obligating the Committee to delegate authority as herein provided and the Committee may at any time rescind the authority delegated hereunder. Any action undertaken by such Board committee in accordance with the Committee's delegation of authority shall have the same force and effect as if undertaken directly by the Committee, and any reference in the Plan shall, to the extent consistent with the terms and limitations of such delegation, be deemed to include the Board committee to whom such authority has been delegated.

1.5 Granting of Awards to Participants. The Committee shall have the authority to grant, prior to the expiration date of the Plan, Awards to such Employees, Consultants and Non-Employee Directors as may be selected by it subject to the terms and conditions hereinafter set forth in the Plan. In selecting the persons to receive Awards, including the type and size of the Award, the Committee may consider the contribution the recipient has made and/or may make to the growth of the Company or its Affiliates and any other factors that it may deem relevant. No member of the Committee shall vote or act upon any matter relating solely to himself. Grants of Awards to members of the Committee must be ratified by the Board. In no event shall any Employee, Consultant or Non-Employee Director, nor his or its legal representatives, heirs, legatees, distributees or successors have any right to participate in the Plan except to such extent, if any, as permitted under the Plan and as the Committee may determine.

1.6 Leave of Absence. If an Employee is on military, sick leave or other bona fide leave of absence, such person shall be considered an "Employee" for purposes of an outstanding Award during the period of such leave provided it does not exceed 90 days (or such longer period as may be determined by the Committee in its sole discretion), or, if longer, so long as the person's right to reemployment is guaranteed either by statute or by contract. If the period of leave exceeds 90 days (or such longer period as may be determined by the Committee in its sole discretion), the employment relationship shall be deemed to have terminated on the 91<sup>st</sup> day (or the first day immediately following any period of leave in excess of 90 days as approved by the Committee) of such leave, unless the person's right to reemployment is guaranteed by statute or contract.

1.7 Term of Plan. If not sooner terminated under the provisions of Section 1.9, the Plan shall terminate upon, and no further Awards shall be made, after February 16, 2021; provided, however, that the termination of the Plan on such date will not affect the validity of any Award outstanding on the date of termination, which shall continue to be

governed by the applicable terms and conditions of the Plan.

1.8 Amendment and Discontinuance of the Plan. The Board may amend, suspend or terminate the Plan at any time without prior notice to or consent of any person; provided, however, subject to Section 8.11, 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 with respect to such Award in any material respect; and provided further, however, that no amendment of the Plan shall be effective prior to its approval by the stockholders

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of the Company to the extent that (i) it would contravene the requirements of Section 2.4 or Section 5.2 of the Plan or (ii) such approval is required by (A) applicable legal requirements, (B) the requirements of any securities exchange on which the Company's stock may be listed or (C) the requirements of the Nasdaq Stock Market, Inc. on which the Company's stock may be listed. Notwithstanding the foregoing, the Board may amend the Plan in such manner as it deems necessary in order to permit Awards to meet the requirements of the Code or other applicable laws, or to prevent adverse tax consequences to the Participants.

## ARTICLE II NONQUALIFIED OPTIONS

2.1 Eligibility. The Committee may grant Nonqualified Options to purchase the Common Stock to any Employee, Consultant and Non-Employee Director according to the terms set forth below. Each Nonqualified Option granted under the Plan shall be evidenced by a written agreement between the Company and the individual to whom Nonqualified Options were granted in such form as the Committee shall provide.

2.2 Exercise Price. The exercise price to be paid for each share of Common Stock deliverable upon exercise of each Nonqualified Option granted under this Article II shall not be less than one hundred percent (100%) of the FMV Per Share as of the date of grant of such Nonqualified Option. The exercise price for each Nonqualified Option granted under Article II shall be subject to adjustment as provided in Section 2.3(d) of the Plan.

2.3 Terms and Conditions of Nonqualified Options. Nonqualified Options shall be in such form as the Committee may from time to time approve, shall be subject to the following terms and conditions and may contain such additional terms and conditions, not inconsistent with this Article II, as the Committee shall deem desirable:

(a) Option Period and Conditions and Limitations on Exercise. No Nonqualified Option shall be exercisable later than the Option Expiration Date. To the extent not prohibited by other provisions of the Plan, each Nonqualified Option shall be exercisable at such time or times as the Committee in its discretion may determine.

(b) Manner of Exercise. In order to exercise a Nonqualified Option, the person or persons entitled to exercise it shall deliver to the Company payment in full for (i) the shares being purchased and (ii) unless other arrangements have been made with the Committee, any required withholding taxes. The payment of the exercise price for each Nonqualified Option shall either be (i) in cash or by check payable and acceptable to the Company, (ii) with the consent of the Committee, by tendering to the Company shares of Common Stock owned by the person for more than six months having an aggregate Fair Market Value as of the date of exercise that is not greater than the full exercise price for the shares with respect to which the Nonqualified Option is being exercised and by paying any remaining amount of the exercise price as provided in (i) above, or (iii) with the consent of the Committee and compliance with such instructions as the Committee may specify, by delivering to the Company and to a broker a properly executed exercise notice and irrevocable instructions to such broker to deliver to the Company cash or a check payable and acceptable to the Company to pay the exercise price and any applicable withholding taxes. Upon receipt of the cash or check from the broker, the Company will deliver to the broker the shares for which the Nonqualified Option is exercised. In the event that the person elects to make payment as allowed under clause (ii) above, the Committee may, upon confirming that the Optionee owns the number of additional shares being tendered, authorize the issuance of a new certificate for the number of shares being acquired pursuant to the exercise of the Nonqualified Option less the number of shares being tendered upon the exercise and return to the person (or not require surrender of) the certificate for the shares being tendered upon the exercise. The date of sale of the shares by the broker pursuant to a cashless exercise under (iii) above shall be the date of exercise of the Nonqualified Option. If the Committee so requires, such person or persons shall also deliver a written representation that all shares being purchased are being acquired for investment and not with a view to, or for resale in connection with, any distribution of such shares.

(c) Nonqualified Options not Transferable. Except as provided below, no Nonqualified Option granted hereunder shall be transferable other than by (i) will or by the laws of descent and distribution or (ii) pursuant to a domestic relations order and, during the lifetime of the Participant to whom any such Nonqualified Option is granted, it shall be exercisable only by the Participant (or his guardian). Any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of, or to subject to execution, attachment or similar process, any Nonqualified Option granted hereunder, or any right thereunder, contrary to the provisions hereof, shall be void and ineffective, shall give no right

to the purported transferee, and shall, at the sole discretion of the Committee, result in forfeiture of the Nonqualified Option with respect to the shares involved in such attempt. With respect to a specific Nonqualified Option, in accordance with rules and procedures established by the Committee from time to time, the Participant (or his guardian) may transfer, for estate planning purposes, all or part of such Nonqualified Option to one or more immediate family members or related family trusts or partnerships or similar entities as determined by the Committee. Any Nonqualified Option that is transferred in accordance with the provisions of this Section may only be exercised by the person or persons who acquire a proprietary interest in the Nonqualified Options pursuant to the transfer.

(d) **Adjustment of Nonqualified Options.** In the event that at any time after the Effective Date the outstanding shares of Common Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of merger, consolidation, recapitalization, reclassification, stock split, stock dividend, combination of shares or the like, proportionate adjustments shall be made as provided in Section 1.3.

(e) **Listing and Registration of Shares.** Each Nonqualified Option shall be subject to the requirement that if at any time the Committee determines, in its discretion, that the listing, registration, or qualification of the shares subject to such Nonqualified Option under any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the issue or purchase of shares thereunder, such Nonqualified Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained and the same shall have been free of any conditions not acceptable to the Committee.

**2.4 Option Repricing.** With stockholder approval, the Committee may grant to holders of outstanding Nonqualified Options, in exchange for the surrender and cancellation of such Nonqualified Options, new Nonqualified Options having exercise prices lower (or higher with any required consent) than the exercise price provided in the Nonqualified Options so surrendered and cancelled and containing such other terms and conditions as the Committee may deem appropriate. Except as contemplated by Section 2.3(d), no Nonqualified Option may be amended to reduce the exercise price of the shares subject to such Nonqualified Option without prior stockholder approval.

**2.5 Vesting.** See Section 8.10 of the Plan for provisions on vesting in connection with termination of a Participant's Employment or termination of a Participant's service. Also, see Section 8.11 of the Plan relating to vesting in connection with a Change in Control or a termination of Employment or termination of service following a Change in Control. Subject to the final paragraph of Section 1.3 of the Plan, no condition on vesting of a Nonqualified Option that is based upon continued employment or the passage of time shall provide for vesting in full of the Nonqualified Option more quickly than in pro rata installments over three years from the date of grant of the Award.

### ARTICLE III INCENTIVE OPTIONS

The terms specified in this Article III shall be applicable to all Incentive Options. Except as modified by the provisions of this Article III, all the provisions of Article II shall be applicable to Incentive Options, including the vesting provisions of Section 2.5. Options which are specifically designated as Nonqualified Options shall not be subject to the terms of this Article III.

**3.1 Eligibility.** Incentive Options may only be granted to Employees of the Company or its parent or subsidiary as defined in Sections 424(e) or (f) of the Code, as applicable, while each such entity is a "corporation" described in Section 7701(a)(3) of the Code and Treas. Reg. Section 1.421-1(i)(1).

**3.2 Exercise Price.** Subject to Section 3.4, the exercise price per share shall not be less than one hundred percent (100%) of the FMV Per Share as of the option date of grant.



3.3 Dollar Limitation. 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 the Company or any Affiliate which is a parent or subsidiary as defined in Code Sections

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424(e) or (f), as applicable) may for the first time become exercisable as Incentive Options during any one (1) calendar year shall not exceed the sum of One Hundred Thousand Dollars (\$100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

3.4 10% Stockholder. If any Employee to whom an Incentive Option is granted owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any “parent corporation” of the Company (as defined in Section 424(e) of the Code) or any “subsidiary corporation” of the Company (as defined in Section 424(f) of the Code), then the exercise price per share shall not be less than one hundred ten percent (110%) of the FMV Per Share as of the date of grant and the option term shall not exceed five (5) years measured from the date of grant. For purposes of the immediately preceding sentence, the attribution rules under Section 424(d) of the Code shall apply for purposes of determining an Employee’s ownership.

3.5 Incentive Options Not Transferable. No Incentive Option granted hereunder (i) shall be transferable other than by will or by the laws of descent and distribution and (ii) except as permitted in regulations or other guidance issued under Section 422 of the Code, shall be exercisable during the Optionee’s lifetime by any person other than the Optionee (or his guardian).

3.6 Compliance With Code Section 422. All Options that are intended to be incentive stock options described in Code Section 422 shall be designated as such in the Option grant and in all respects shall be issued in compliance with Code Section 422.

3.7 Limitations on Exercise. Except as provided in Section 8.10(d), no Incentive Option shall be exercisable after the earlier of (i) three (3) months after the Optionee ceases to be an Employee for any reason other than death or Disability, or more than one (1) year after the Optionee ceases to be an Employee due to death or Disability, and (ii) the Option Expiration Date.

#### ARTICLE IV BONUS STOCK

The Committee may, from time to time and subject to the provisions of the Plan including the limitation set forth in Section 1.3 of the Plan, grant shares of Bonus Stock to Employees, Consultants and Non-Employee Directors. Such grants of Bonus Stock shall be in consideration of performance of services by the Participant without additional consideration except as may be required by the Committee or pursuant to Article IX. Notwithstanding the foregoing, subject to the final paragraph of Section 1.3 of the Plan, no condition on vesting of a Bonus Stock Award that is based upon achievement of specified performance goals shall be based on performance over a period of less than one year and no condition on vesting of a Bonus Stock Award that is based upon continued employment or the passage of time shall provide for vesting in full of the Bonus Stock Award more quickly than in pro rata installments over three years from the date of grant of the Bonus Stock Award.

#### ARTICLE V STOCK APPRECIATION RIGHTS

5.1 Eligibility. The Committee is authorized to grant Stock Appreciation Rights to Employees, Consultants and Non-Employee Directors on the following terms and conditions.

(a) Right to Payment. A Stock Appreciation Right shall confer on the Participant to whom it is granted, upon exercise thereof, a right to receive shares of Common Stock, the value of which is equal to the excess of (A) the FMV

Per Share on the date of exercise over (B) the deemed exercise price which shall be one hundred percent (100%) of the FMV Per Share as of the date of grant (the Spread) with respect to a specified number of shares of Common Stock. Notwithstanding the foregoing, the Committee may provide, in its sole discretion, that the Spread covered by a Stock Appreciation Right may not exceed a specified amount. The deemed exercise price for each Stock Appreciation Right granted under Article V shall be subject to adjustment as provided in Section 1.3 in the event that at any time after the Effective Date the outstanding shares of Common Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of a merger, consolidation, recapitalization, reclassification, stock split, stock dividend, or a combination of shares or the like.

(b) Terms. The 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 in whole or in part (including based on achievement of performance goals and/or future service requirements), the method of exercise, and any other terms and conditions of any Stock Appreciation Right; provided, however, a Stock Appreciation Right shall not be granted in tandem or in combination with any other Award if that would (i) cause application of Section 409A of the Code to the Award or (ii) result in adverse tax consequences under Section 409A of the Code should that code section apply to the Award.

5.2 Repricing. With stockholder approval, the Committee may grant to holders of outstanding Stock Appreciation Rights, in exchange for the surrender and cancellation of such Stock Appreciation Rights, new Stock Appreciation Rights having deemed exercise prices lower (or higher with any required consent) than the deemed exercise price provided in the Stock Appreciation Rights so surrendered and cancelled and containing such other terms and conditions as the Committee may deem appropriate. Except as contemplated by Section 1.3, no Stock Appreciation Right may be amended to reduce the deemed exercise price of the shares subject to such Stock Appreciation Right without prior stockholder approval.

5.3 Vesting. Subject to the final paragraph of Section 1.3 of the Plan, no condition on vesting of a Stock Appreciation Right that is based upon continued employment or the passage of time shall provide for vesting in full of the Stock Appreciation Right more quickly than in pro rata installments over three years from the date of grant of the Award.

## ARTICLE VI RESTRICTED STOCK

6.1 Eligibility. All Employees, Consultants and Non-Employee Directors shall be eligible for grants of Restricted Stock.

6.2 Restrictions, Restricted Period and Vesting.

(a) The Restricted Stock shall be subject to such forfeiture restrictions (including, without limitation, limitations that qualify as a “substantial risk of forfeiture” within the meaning given to that term under Section 83 of the Code) and restrictions on transfer by the Participant and repurchase by the Company as the Committee, in its sole discretion, shall determine, including, without limitation, restrictions based on the achievement of specific performance goals (which may be based on one or more of the criteria set forth in Section 7.2(b)) and time-based restrictions or holding requirements or sale restrictions placed on the shares of Common Stock by the Company upon vesting of such Restricted Stock. Prior to the lapse of such restrictions the Participant shall not be permitted to transfer such shares. The Company shall have the right to repurchase or recover such shares for the amount of any cash paid therefor if (i) the Participant’s Employment with or service to the Company shall terminate prior to the lapse of such restrictions or (ii) the Restricted Stock is forfeited by the Participant pursuant to the terms of the Award.

(b) Vesting. See Section 8.10 of the Plan for provisions on vesting in connection with termination of a Participant’s Employment or service. Also, see Section 8.11 of the Plan relating to vesting in connection with a Change in Control or termination of a Participant’s Employment or termination of a Participant’s service following a Change in Control. Subject to the final paragraph of Section 1.3 of the Plan, no condition on vesting of a Restricted Stock Award that is based upon achievement of specified performance goals shall be based on performance over a period of less than one year and no condition on vesting of a Restricted Stock Award that is based upon continued employment or the passage of time shall provide for vesting in full of the Restricted Stock Award more quickly than in pro rata installments over three years from the date of grant of the Restricted Stock Award.

(c) Immediate Transfer Without Immediate Delivery of Restricted Stock. Each certificate representing Restricted Stock awarded under the Plan shall be registered in the name of the Participant and, during the Restricted Period shall be left on deposit with the Company, or in trust or escrow pursuant to an agreement satisfactory to the Committee, along with a stock power endorsed in blank until such time as the restrictions on transfer have lapsed. The grantee of Restricted Stock shall have all the rights of a stockholder with respect to such shares including the right to vote and the right to receive dividends or other distributions paid or made with respect

to such shares; provided, however, the Committee may in the Award restrict the Participant's right to dividends until the restrictions on the Restricted Stock lapse. Any certificate or certificates representing shares of Restricted Stock shall bear a legend similar to the following:

The shares represented by this certificate have been issued pursuant to the terms of the TETRA Technologies, Inc. Amended and Restated 2011 Long Term Incentive Compensation Plan and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Award dated \_\_\_\_\_, 20\_\_.

6.3 Forfeiture of Restricted Stock. If, for any reason, the restrictions imposed by the Committee upon Restricted Stock are not satisfied at the end of the Restricted Period, any Restricted Stock remaining subject to such restrictions shall thereupon be forfeited by the Participant and reacquired by the Company.

6.4 Delivery of Shares of Common Stock. Pursuant to Section 8.5 of the Plan and subject to withholding requirements of Article IX of the Plan, at the expiration of the Restricted Period, a stock certificate evidencing the Restricted Stock (to the nearest full share) with respect to which the Restricted Period has expired shall be delivered without charge to the Participant, or his personal representative, free of all restrictions under the Plan.

## ARTICLE VII PERFORMANCE AWARDS

7.1 Performance Awards. The Committee may grant Performance Awards based on performance goals as set forth in Section 7.2 measured over a performance period established pursuant to Section 7.2(c) of the Plan. The Committee may use any such business criteria and other measures of performance as set forth in Section 7.2 as it may deem appropriate in establishing any performance conditions. A Performance Award granted under the Plan (i) may be denominated or payable in cash, shares of Common Stock (including, without limitation, Restricted Stock), other Awards or other property, and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of one or more performance goals during such performance periods as the Committee may establish within the provisions of this Article VII.

7.2 Performance Goals. The grant and/or settlement of a Performance Award shall be contingent upon terms set forth in this Section 7.2.

(a) General. The performance goals for Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee. In the case of any Award granted to a Covered Employee, performance goals shall be designed to be objective and shall otherwise meet the requirements of Section 162(m) of the Code and regulations thereunder (including Treasury Regulations sec. 1.162-27 and successor regulations thereto), including the requirement that the level or levels of performance targeted by the Committee are such that the achievement of performance goals is "substantially uncertain" at the time of grant. The Committee may determine that such Performance Awards shall be granted and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to the grant and/or settlement of such Performance Awards. Performance goals may differ among Performance Awards granted to any one Participant or for Performance Awards granted to different Participants.

(b) Business Criteria. One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified subsidiaries, divisions or business or geographical units of the Company, shall be used by the Committee in establishing performance goals for Performance Awards granted to a Participant: (A) earnings per share; (B) increase in price per share; (C) increase in revenues; (D) increase in cash flow; (E) return on assets; (F) return on investments; (G) return on equity; (H) return on net capital employed; (I) economic value added; (J) gross margin; (K) net income; (L) earnings before interest, taxes, depreciation, depletion and amortization; (M) earnings

before interest and taxes; (N) profit before taxes; (O) operating income; (P) total stockholder return; (Q) debt reduction; (R) health/safety/environmental performance; and (S) any of the above goals determined on the absolute or relative basis or as compared to the performance of a published or special

index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index, the Oil Service Index (OSX) or components thereof or a group of comparable companies.

(c) Performance Period; Timing for Establishing Performance Goals. Achievement of performance goals in respect of Performance Awards shall be measured over a performance period of not less than one year and not more than five years, as specified by the Committee, subject to the provisions of Section 8.10(d) with respect to death, Disability and Retirement and Section 8.11 with respect to a Change in Control and a termination of Employment or termination of service following a Change in Control. Performance goals in the case of any Award granted to a Participant shall be established not later than 90 days after the beginning of any performance period applicable to such Performance Awards, or at such other date as may be required or permitted for "performance-based compensation" under Section 162(m) of the Code.

(d) Settlement of Performance Awards; Other Terms. After the end of each performance period, the Committee shall determine the amount, if any, of Performance Awards payable to each Participant based upon achievement of business criteria over a performance period. Except as may otherwise be required under Section 409A of the Code, payment described in the immediately preceding sentence shall be made by the later of (i) the date that is 2 1/2 months after the end of the Participant's first taxable year in which the Performance Award is earned and payable under the Plan and (ii) the date that is 2 1/2 months after the end of the Company's first taxable year in which the Performance Award is earned and payable under the Plan, and such payment shall not be subject to any election by the Participant to defer the payment to a later period. Subject to the limitation set forth in Section 1.3, with respect to any Performance Award payable in shares of Common Stock, the number of shares of Common Stock deliverable shall be determined by dividing the amount payable under a Performance Award by the FMV 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. If at the time payment is due with respect to any Performance Award payable in shares of Common Stock there is not a sufficient number of shares of Common Stock available under the Plan to pay such Performance Award fully in shares of Common Stock, the Performance Award shall first be paid in shares of Common Stock if any, as provided above with the remaining portion of such Performance Award payable in cash. The Committee may not exercise discretion to increase any such amount payable in respect of a Performance Award which is intended to comply with Section 162(m) of the Code. The Committee shall specify the circumstances in which such Performance Awards shall be paid or forfeited by the Participant in the event of termination of a Participant's Employment or of a Participant's service prior to the end of a performance period or settlement of Performance Awards.

(e) Written Determinations. All determinations by the Committee as to the establishment of performance goals, the amount of any Performance Award, and the achievement of performance goals relating to Performance Awards shall be made in a written agreement or other document covering the Performance Award. The Committee may not delegate any responsibility relating to such Performance Awards.

(f) Status of Performance Awards Under Section 162(m) of the Code. It is the intent of the Company that Performance Awards granted to persons who are designated by the Committee as likely to be Covered Employees within the meaning of Section 162(m) of the Code and regulations thereunder (including Treasury Regulations § 1.162-27 and successor regulations thereto) shall constitute "performance-based compensation" within the meaning of Section 162(m) of the Code and regulations thereunder. Accordingly, the terms of this Section 7.2 shall be interpreted in a manner consistent with Section 162(m) of the Code and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean any person designated by the Committee, at the time of grant of a Performance Award, as likely to be a Covered Employee with respect to that fiscal year. If any provision of the Plan as in effect on the date of adoption or any agreements relating to Performance Awards that are intended to comply with Section 162(m) of the Code does not



comply or is inconsistent with the requirements of Section 162(m) of the Code or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements. Notwithstanding any provision of this Plan to the contrary, the Committee may not increase the amount payable to a Covered Employee in respect of a Performance Award, or to otherwise amend or affect an Option, Stock Appreciation Right or Performance Award, that is intended to qualify as “performance-based compensation” under Section 162(m) of the Code to otherwise fail to qualify as “performance-based compensation” under Section 162(m) of the Code.

ARTICLE VIII  
CERTAIN PROVISIONS APPLICABLE TO ALL AWARDS

8.1 General. Awards shall be evidenced by a written agreement or other document and may be granted on the terms and conditions set forth herein. In addition, the Committee may impose on any Award or the exercise thereof, such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards by the Participant in the event of termination of a Participant's Employment or termination of a Participant's service and terms permitting a Participant to make elections relating to his or her Award; provided, that any such election would not (i) cause the application of Section 409A of the Code to the Award or (ii) create adverse tax consequences under Section 409A of the Code should Section 409A apply to the Award. The terms, conditions and/or restrictions contained in an Award may differ from the terms, conditions and restrictions contained in any other Award. The Committee may amend an Award; provided, however, subject to Section 8.11, no amendment of an Award may, without the consent of the holder of the Award, adversely affect such person's rights with respect to such Award in any material respect. The Committee shall retain full power and discretion to accelerate or waive, at any time, any term or condition of an Award; provided, however, that, subject to Section 8.11, the Committee shall not have any discretion to accelerate or waive any term or condition of an Award if (x) such discretion would cause the Award to have adverse tax consequences to the Participant under Section 409A of the Code or (y) if the Award is intended to qualify as "performance-based compensation" for purposes of Section 162(m) of the Code and such discretion would cause the Award not to so qualify. Except in cases in which the Committee is authorized to require other forms of consideration under the Plan, or to the extent other forms of consideration must be paid to satisfy the requirements of the Delaware Corporation Law, no consideration other than services may be required for the grant of any Award.

8.2 Stand-Alone, Additional and Substitute Awards.

(a) Awards Granted by the Company and Affiliates. Subject to the limitations on repricing set forth below and in Sections 2.4 and 5.2 of the Plan, Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, or in substitution or exchange for, any other Award or any award granted under another plan of the Company or any Affiliate, or any other right of a Participant to receive payment from the Company or any Affiliate; provided, however, no Award shall be issued in tandem with another Award under the Plan or in tandem or in connection with any award granted under another plan of the Company or any Affiliate, or any other right of a Participant to receive payment from the Company or any Affiliate if such an issuance would result in adverse tax consequences under Section 409A of the Code. Such additional, substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award, the Committee shall require the surrender of such other Award for cancellation in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Affiliate. Any such action contemplated under this Section 8.2(a) shall be effective only to the extent that such action will not cause (i) the holder of the Award to lose the protection of Section 16(b) of the Exchange Act and rules and regulations promulgated thereunder, (ii) any Award that is designed to qualify payments thereunder as performance-based compensation as defined in Section 162(m) of the Code to fail to qualify as such performance-based compensation, or (iii) any Award that is subject to Section 409A of the Code to result in adverse consequences under Section 409A of the Code. In addition, except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares), the terms of outstanding Awards may not be amended to reduce the exercise price of outstanding Options or Stock

Appreciation Rights or to cancel outstanding Options or Stock Appreciation Rights in exchange for cash, other Awards or Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Options or Stock Appreciation Rights without prior stockholder approval.

(b) Substitute Awards for Awards Granted by Other Entities. The Committee shall have the authority to grant substitute Awards under the Plan in assumption of, or in substitution or exchange for, any options or awards previously granted by another entity that are transferred to the Company or an Affiliate as a result of the acquisition of, or merger, consolidation or other corporate transaction with, such other entity by the Company or an Affiliate. The

number of shares of Common Stock covered by any such substitute Awards shall not reduce, or otherwise be counted against, the aggregate number of shares of Common Stock available for grant under the Plan. Except as otherwise provided by applicable law and notwithstanding anything in the Plan to the contrary, the terms, provisions and benefits of the substitute Awards so granted, including, without limitation, the exercise price of any such substitute Award, may vary from those set forth in or required by the Plan to the extent the Committee at the time of grant may deem appropriate to conform, in whole or in part, to the terms, provisions and benefits of the options or awards being assumed or replaced. In addition, the date of grant of any substitute Award shall relate back to the initial option or award being assumed or replaced, and service with the acquired entity shall constitute service with the Company or its Affiliate.

8.3 Term of Awards. The term or Restricted Period of each Award that is an Option, Stock Appreciation Right or Restricted Stock shall be for such period as may be determined by the Committee; provided that in no event shall the term of any such Award exceed a period of ten (10) years (or such shorter terms as may be required in respect of an Incentive Stock Option under Section 422 of the Code).

8.4 Form and Timing of Payment Under Awards; Deferrals.

(a) General Provisions. Subject to the terms of the Plan and any applicable Award agreement, payments to be made by the Company or a subsidiary upon the exercise of an Option or other Award or settlement of an Award may be made in such form or forms as the Committee shall determine, including, without limitation, cash, shares of Common Stock, other Awards or other property or any combination thereof, and may be made as a single payment or transfer, in installments, or on a deferred basis. The settlement of any Award may, subject to any limitations set forth in the Plan and/or Award agreement, be accelerated, in the discretion of the Committee or upon occurrence of one or more specified events; provided, however, that such discretion may not be exercised by the Committee if the exercise of such discretion would result in adverse tax consequences to the Participant under Section 409A of the Code. Installment or deferred payments may be required or permitted by the Committee (subject to Section 1.8 of the Plan, including the consent provisions thereof in the case of any deferral of an outstanding Award not provided for in the original Award agreement); provided, however, that no deferral shall be required or permitted by the Committee if such deferral would result in adverse tax consequences to the Participant under Section 409A of the Code. Any deferral shall only be allowed as is provided in a separate deferred compensation plan adopted by the Company. The Plan shall not constitute an “employee benefit plan” for purposes of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended.

(b) Section 409A Limits on Certain Payments. Notwithstanding any other provision of the Plan or an Award to the contrary, if a Participant is a “key employee,” as defined in Section 416(i) of the Code (without regard to paragraph 5 thereof), except to the extent permitted under Section 409A of the Code, no benefit or payment that is subject to Section 409A of the Code (after taking into account all applicable exceptions to Section 409A of the Code, including but not limited to the exceptions for short-term deferrals and for “separation pay only upon an involuntary separation from service”) shall be made under this Plan or the affected Award granted thereunder on account of the Participant’s “separation from service,” as defined in Section 409A of the Code, with the Company and its Affiliates until the later of the date prescribed for payment in this Plan or the affected Award granted thereunder and the first (1st) day of the seventh (7th) calendar month that begins after the date of the Participant’s separation from service (or, if earlier, the date of death of the Participant). Unless otherwise provided in the Award, any amount that is otherwise payable within the delay period described in the immediately preceding sentence will be aggregated and paid in a lump sum without interest. Notwithstanding any other provision of the Plan or an Award to the contrary, no benefit or payment that is subject to Section 409A of the Code (after taking into account all applicable exceptions to Section 409A of the Code, including but not limited to the exceptions for short-term deferrals and for “separation pay only upon an involuntary separation from service”) shall be made under this Plan or the affected Award on account of a termination of the Participant’s Employment or service relationship with the Company and its Affiliates unless that termination also

constitutes a “separation from service” as defined in Section 409A of the Code.

8.5 Vested and Unvested Awards. After the satisfaction of all of the terms and conditions set by the Committee with respect to an Award of (i) Restricted Stock, a certificate (or such other evidence of ownership), without the legend set forth in Section 6.2(c), for the number of shares that are no longer subject to such restrictions, terms and conditions shall be delivered to the Employee, and (ii) Stock Appreciation Rights or Performance Awards to be paid in shares of Common Stock, a certificate (or such other evidence of ownership) for

the number of shares equal in value to the number of Stock Appreciation Rights or amount of Performance Awards payable under those Awards shall be delivered to the person. The number of shares of Common Stock which shall be issuable upon exercise of a Stock Appreciation Right or earning of a Performance Award to be paid in shares of Common Stock shall be determined by dividing (1) by (2) where (1) is the number of shares of Common Stock as to which the Stock Appreciation Right is exercised multiplied by the Spread or the amount of Performance Award that is earned and payable, as applicable, and (2) is the FMV Per Share of Common Stock on the date of exercise of the Stock Appreciation Right or the date the Performance Award is determined to be earned and payable, as applicable. Upon a termination, resignation or removal of a Participant under circumstances that do not result in such Participant to become fully vested, any remaining unvested Options, shares of Restricted Stock, Stock Appreciation Rights or Performance Awards, as the case may be, shall, unless otherwise provided in this Plan, either be forfeited back to the Company or, if appropriate under the terms of the Award, shall continue to be subject to the restrictions, terms and conditions set by the Committee with respect to such Award.

8.6 Exemptions from Section 16(b) Liability. It is the intent of the Company that the grant of any Awards to or other transaction by a Participant who is subject to Section 16 of the Exchange Act shall be exempt from Section 16(b) of the Exchange Act pursuant to an applicable exemption (except for transactions acknowledged by the Participant in writing to be non-exempt). Accordingly, if any provision of this Plan or any Award agreement does not comply with the requirements of Rule 16b-3 as then applicable to any such transaction, such provision shall be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 so that such Participant shall avoid liability under Section 16(b) of the Exchange Act.

8.7 Transferability.

(a) Non-Transferable Awards and Options. Except as otherwise specifically provided in the Plan, no Award and no right under the Plan, contingent or otherwise, other than Bonus Stock or Restricted Stock as to which restrictions have lapsed, will be (i) assignable, saleable, or otherwise transferable by a Participant except by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order, or (ii) subject to any encumbrance, pledge or charge of any nature. No transfer by will or by the laws of descent and distribution shall be effective to bind the Company unless the Committee shall have been furnished with a copy of the deceased Participant's will or such other evidence as the Committee may deem necessary to establish the validity of the transfer. Any attempted transfer in violation of this Section 8.7(a) shall be void and ineffective for all purposes.

(b) Ability to Exercise Rights. Except as otherwise specifically provided under the Plan, only the Participant or his guardian (if the Participant becomes Disabled), or in the event of his death, his legal representative or beneficiary, may exercise Options, receive cash payments and deliveries of shares, or otherwise exercise rights under the Plan. The executor or administrator of the Participant's estate, or the person or persons to whom the Participant's rights under any Award will pass by will or the laws of descent and distribution, shall be deemed to be the Participant's beneficiary or beneficiaries of the rights of the Participant hereunder and shall be entitled to exercise such rights as are provided hereunder.

8.8 Rights as a Stockholder.

(a) No Stockholder Rights. Except as otherwise provided in Section 8.8(b) or Section 6.2(c), a Participant who has received a grant of an Award or a transferee of such Participant shall have no rights as a stockholder with respect to any shares of Common Stock until such person becomes the holder of record. Except as otherwise provided in Section 8.8(b) or Section 1.3, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities, or other property) or distributions or other rights for which the record date is prior to the date such stock certificate is issued.

(b) Holder of Restricted Stock. Unless otherwise approved by the Committee prior to the grant of a Restricted Stock Award, a Participant who has received a grant of Restricted Stock or a permitted transferee of such Participant shall not have any rights of a stockholder until such time as a stock certificate has been issued with respect to all, or a portion of, such Restricted Stock Award, except as otherwise provided in Section 6.2(c).

8.9 Listing and Registration of Shares of Common Stock. The Company, in its discretion, may postpone the issuance and/or delivery of shares of Common Stock upon any exercise of an Award until completion of such stock exchange listing, registration, or other qualification of such shares under any state and/or federal law,

rule or regulation as the Company may consider appropriate, and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of the shares in compliance with applicable laws, rules and regulations.

#### 8.10 Termination of Employment, Death, Disability and Retirement.

- (a) Termination of Employment or Service. Except as provided in Section 8.11 with respect to a termination of a Participant's Employment or service following a Change in Control, if Employment of an Employee or service of a Non-Employee Director or Consultant is terminated for any reason whatsoever other than death, Disability or Retirement, then, unless otherwise provided in the Award or as otherwise determined by the Committee, any nonvested Award granted pursuant to the Plan outstanding at the time of such termination and all rights thereunder shall wholly and completely terminate and no further vesting shall occur, and the Employee, Consultant or Non-Employee Director shall be entitled to utilize his or her exercise rights with respect to the portion of the Award vested as of the date of termination for a period that shall end on the earlier of (i) the expiration date set forth in the Award with respect to the vested portion of such Award or (ii) the date that occurs three (3) months after such termination date.
- (b) Retirement. Unless otherwise provided in the Award, upon the Retirement of a Participant:
- (i) any nonvested portion of any outstanding Award shall immediately terminate and no further vesting shall occur; and
- (ii) any exercise rights with respect to any vested Award shall expire on the earlier of (A) the expiration date set forth in the Award; or (B) the expiration of twelve (12) months after the date of Retirement.
- (c) Disability or Death. Unless otherwise provided in the Award, upon termination of a Participant's Employment or service from the Company or any Affiliate which is a parent or subsidiary as a result of Disability or death of a Participant, or with respect to a Participant who is either a retired former Employee, Non-Employee Director or Consultant who dies during the period described in Section 8.10(b), hereinafter the "Applicable Retirement Period," or a disabled former Employee, Non-Employee Director or Consultant 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 of Employment or service due to Disability, hereinafter the "Applicable Disability Period,"
- (i) any nonvested portion of any outstanding Award that has not already terminated shall immediately terminate and no further vesting shall occur; and
- (ii) any exercise rights with respect to any vested Award shall expire upon the earlier of (A) the expiration date set forth in the Award or (B) the later of (1) the first anniversary of such termination of Employment or service as a result of Disability or death, or (2) the first anniversary of such person's death during the Applicable Retirement Period (except in the case of an Incentive Option) or the Applicable Disability Period.
- (d) Acceleration of Vesting and Lapse of Restrictions. Notwithstanding the above provisions of this Section 8.10, to the extent not already provided for in the Award, upon the Retirement of a Participant, or upon termination of Employment or service as a result of the Disability or death of a Participant, the Committee, in its discretion and on an individual basis, may provide (i) with respect to any Stock Option or Stock Appreciation Right, that all or a part of the unvested portion of such Award shall become vested and, together with the previously vested portion of the Award, shall be exercisable for such period and upon such terms and conditions as may be determined by the Committee, provided that such continuation may not exceed the expiration date set forth in the Award; and, (ii) with respect to Restricted Stock, that all or a part of the unvested portion of the Award shall become vested; provided, however, that



(A) if the Award is to a Covered Employee and intended to qualify as “performance-based compensation” under Section 162(m) of the Code, such acceleration of vesting and waiver of restrictions may only occur upon a termination due to death or Disability, (B) with respect to Awards that are subject to Section 409(A) of the Code, the Committee shall not have the authority to accelerate the vesting or waive any restrictions, or postpone the timing of payment or settlement of the Award in a manner that would cause such Award

to become subject to the interest and penalty provisions under Section 409A of the Code, and (C) no acceleration of vesting described in this Section 8.10(d) shall be effective prior to the date of the Committee's written determination.

(e) Continuation. Notwithstanding any other provision of the Plan, the Committee, in its discretion and on an individual basis, may provide with respect to any Stock Option or Stock Appreciation Right, that the vested portion of such Award shall remain exercisable for such period and upon such terms and conditions as are determined by the Committee in the event that a Participant ceases to be an Employee, Consultant or Non-Employee Director; provided, however, that such continuation may not exceed the expiration date set forth in the Award.

#### 8.11 Change in Control

(a) Change in Control. Unless otherwise provided in the Award or other employment, severance or change in control agreement approved by the Committee to which a Participant is a party that addresses the effect on an Award of a Change in Control or termination of a Participant's Employment or service following a Change in Control, in which case such agreement shall control, in the event of a Change in Control, the Committee (as constituted before such Change in Control), acting in its sole discretion without the consent of any Participant, may effect one or more of the following alternatives, which may vary among individual Participants and which may vary among Awards:

(i) the Committee may accelerate vesting and the time at which all Options and Stock Appreciation Rights then outstanding may be exercised so that those types of Awards may be exercised in full for a limited period of time on or before a specified date fixed by the Committee, after which specified date all unexercised Options and Stock Appreciation Rights and all rights of Participants thereunder shall terminate, or the Committee may accelerate vesting and the time at which Options and Stock Appreciation Rights may be exercised so that those types of Awards may be exercised in full for their then remaining term;

(ii) the Committee may waive all restrictions and conditions of all Restricted Stock then outstanding with the result that all restrictions shall be deemed satisfied, and the Restriction Period shall be deemed to have expired, as of the date of the Change in Control or such other date as may be determined by the Committee;

(iii) the Committee may determine to amend Performance Awards, or substitute new Performance Awards in consideration of cancellation of outstanding Performance Awards, in order to ensure that such Awards shall become fully vested, deemed earned in full and promptly paid to the Participants as of the date of the Change in Control or such other date as may be determined by the Committee, without regard to payment schedules and notwithstanding the applicable performance cycle, retention cycle or other restrictions and conditions shall not have been completed or satisfied; and

(iv) the Committee may provide that any such Award be assumed by the successor or survivor entity, or a parent or subsidiary thereof, or be exchanged and substituted for similar options, restricted stock, rights or awards covering the equity of the successor or survivor, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of equity interests and prices.

The above provisions of this Section 8.11(a) do not require the Committee to take any such action and any decision made by the Committee, in its sole discretion, not to take some or all of the actions described in the preceding provisions of this Section 8.11(a) shall be final, binding and conclusive with respect to the Company and all other interested persons.

(b) The Committee may provide for any action described in Section 8.11(a)(i), (ii) or (iii) to occur immediately upon the Change in Control or upon the termination of Employment or service of the Participant, initiated by the successor or survivor entity under such circumstances as may be specified by the Committee, within a fixed time following the

Change in Control. Any such action taken by the Committee may vary among individual Participants and among Awards.

(c) Right of Cash-Out. If approved by the Board prior to any Change in Control described in clauses (ii), (iii) or (iv) of the definition of a Change in Control, or prior to or within thirty (30) days after any Change in Control described in clause (i) of the definition of a Change in Control shall be deemed to have occurred, the Board

shall have the right upon such Change in Control or for a forty-five (45) day period immediately following the date that the Change in Control is deemed to have occurred to require all, but not less than all, Participants to transfer and deliver to the Company all Awards previously granted to the Participants in exchange for an amount equal to the “cash value” (defined below) of the Awards. Such right shall be exercised by written notice to all Participants. For purposes of this Section 8.11(c), the cash value of an Award shall 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 any Award that is an Option or Restricted Stock, the excess of the “market value” (defined below) per share over the option price, or the market value (defined below) per share of Restricted Stock, multiplied by the number of shares subject to such Award. In the case of any Option or Stock Appreciation Right with an exercise price (or deemed exercise price in the case of a Stock Appreciation Right) that equals or exceeds the price paid for a share of Common Stock in connection with the Change in Control, the Committee may cancel such Option or Stock Appreciate Right without the payment of consideration therefor. For purposes of the preceding sentence, “market value” per share shall mean the higher of (i) the average of the Fair Market Value Per Share of Common Stock on each of the five trading days immediately following the date a Change in Control is deemed to have occurred or (ii) the highest price, if any, offered in connection with the Change in Control. The amount payable to each Participant by the Company pursuant to this Section 8.11(c) shall be in cash or by certified check and shall be reduced by any taxes required to be withheld.

8.12 Clawback/Recoupment Policy. Notwithstanding any provisions in the Plan or any Award agreement to the contrary, any Award granted and/or amount payable or paid hereunder, whether in the form of cash or otherwise, shall be subject to potential cancellation, rescission, clawback and recoupment (i) to the extent necessary to comply with the requirements of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and any regulations or listing requirements promulgated thereunder, and/or (ii) as may be required in accordance with the terms of any clawback/recoupment policy as may be adopted by the Company to comply with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and any regulations or listing requirements promulgated thereunder, as such policy may be amended from time to time (the “Policy”). Any adoption of the Policy or amendment thereof shall not require the prior consent of any Participant.

## ARTICLE IX WITHHOLDING FOR TAXES

Any issuance or delivery of Common Stock pursuant to the exercise of an Option or in payment of any other Award under the Plan shall not be made until appropriate arrangements satisfactory to the Company have been made for the payment of any tax amounts (federal, state, local or other) that may be required to be withheld or paid by the Company with respect thereto at the minimum statutory rate. Such arrangements may, at the discretion of the Committee, include allowing the person to tender to the Company shares of Common Stock owned by the person for a period of at least twelve months prior to the date of exercise, vesting, lapse of restriction or payment of the Award, or to request the Company to withhold shares of Common Stock otherwise issuable or deliverable to the Participant pursuant to the Award, in each case which have an aggregate FMV Per Share as of the date of such withholding that is not greater than the sum of all tax amounts to be withheld with respect thereto at the minimum statutory rate, together with payment of any remaining portion of such tax amounts in cash or by check payable and acceptable to the Company.

## ARTICLE X MISCELLANEOUS

10.1 No Rights to Awards or Uniformity Among Awards. No Participant or other person shall have any claim to be granted any Award, there is no obligation for uniformity of treatment of Participants, or holders or beneficiaries of Awards and the terms and conditions of Awards need not be the same with respect to each recipient.

10.2 Conflicts with Plan. In the event of any inconsistency or conflict between the terms of the Plan and an Award, the terms of the Plan shall govern.

10.3 No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate. Further, the Company or any Affiliate may at any

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time dismiss a Participant from employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award.

10.4 **Governing Law.** The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with applicable federal law and the laws of the State of Delaware, without regard to any principles of conflicts of law.

10.5 **Gender, Tense and Headings.** Whenever the context requires such, words of the masculine gender used herein shall include the feminine and neuter, and words used in the singular shall include the plural. Section headings as used herein are inserted solely for convenience and reference and constitute no part of the Plan.

10.6 **Severability.** If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Participant or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Participant or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

10.7 **Stockholder Agreements.** The Committee may condition the grant, exercise or payment of any Award upon such person entering into a stockholders' or repurchase agreement in such form as approved from time to time by the Board.

10.8 **Funding.** Except as provided under Article VI of the Plan, no provision of the Plan shall require or permit the Company, for the purpose of satisfying any obligations under the Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Company maintain separate bank accounts, books, records or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Participants shall have no rights under the Plan other than as unsecured general creditors of the Company except that insofar as they may have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other Employees, Consultants or Non-Employee Directors under general law.

10.9 **No Guarantee of Tax Consequences.** None of the Board, the Company nor the Committee makes any commitment or guarantee that any federal, state or local tax treatment will apply or be available to any person participating or eligible to participate hereunder.



