

NEWPARK RESOURCES INC

Form 10-Q

July 31, 2009

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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, 2009

or

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

For the transition period from _____ to _____.

**Commission File No. 1-2960
Newpark Resources, Inc.**

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

72-1123385
(I.R.S. Employer
Identification No.)

**2700 Research Forest Drive, Suite 100
The Woodlands, Texas**
(Address of principal executive offices)

77381
(Zip Code)

(281) 362-6800

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

As of July 21, 2009, a total of 88,926,269 shares of common stock, \$0.01 par value per share, were outstanding.

NEWPARK RESOURCES, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2009

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended. We also may provide oral or written forward-looking statements in other materials we release to the public. The words anticipates, believes, estimates, expects, intends, and similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying them. These forward-looking statements reflect the current views of our management; however, various risks, uncertainties and contingencies, including the risks identified in Item 1A, Risk Factors, in Part I of our Annual Report on Form 10-K for the year ended December 31, 2008, and those set forth from time to time in our filings with the Securities and Exchange Commission, could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, these statements, including the success or failure of our efforts to implement our business strategy.

We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by securities laws. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report on Form 10-Q might not occur.

For further information regarding these and other factors, risks and uncertainties affecting us, we refer you to the risk factors set forth in Part I of our Annual Report on Form 10-K for the year ended December 31, 2008.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements****Newpark Resources, Inc.****Condensed Consolidated Balance Sheets**

| (In thousands, except share data) | June 30, 2009 (unaudited) | December 31, 2008 |
|---|--|------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 6,711 | \$ 8,252 |
| Receivables, net | 98,905 | 211,366 |
| Inventories | 137,464 | 149,304 |
| Deferred tax asset | 7,366 | 22,809 |
| Prepaid expenses and other current assets | 11,234 | 11,062 |
| Total current assets | 261,680 | 402,793 |
| Property, plant and equipment, net | 230,308 | 226,627 |
| Goodwill | 60,927 | 60,268 |
| Deferred tax asset, net | 7,525 | 707 |
| Other intangible assets, net | 17,562 | 18,940 |
| Other assets | 4,206 | 4,344 |
| Total assets | \$ 582,208 | \$ 713,679 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Foreign bank lines of credit | \$ 6,370 | \$ 11,302 |
| Current maturities of long-term debt | 10,471 | 10,391 |
| Accounts payable | 44,902 | 89,018 |
| Accrued liabilities | 26,982 | 38,946 |
| Total current liabilities | 88,725 | 149,657 |
| Long-term debt, less current portion | 127,944 | 166,461 |
| Deferred tax liability | 1,066 | 15,979 |
| Other noncurrent liabilities | 3,016 | 3,700 |
| Total liabilities | 220,751 | 335,797 |
| Common stock, \$0.01 par value, 100,000,000 shares authorized 91,471,050 and 91,139,966 shares issued, respectively | 915 | 911 |
| Paid-in capital | 458,302 | 457,012 |
| Accumulated other comprehensive income | 4,580 | 1,296 |
| Retained deficit | (86,878) | (66,087) |
| Treasury stock, at cost; 2,733,601 and 2,646,409 shares, respectively | (15,462) | (15,250) |
| Total stockholders equity | 361,457 | 377,882 |

| | | |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 582,208 | \$ 713,679 |
|--|------------|------------|

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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Newpark Resources, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

| (In thousands, except per share data) | Three Months Ended June | | Six Months Ended June | |
|--|-------------------------|------------|-----------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues | \$ 109,599 | \$ 210,497 | \$ 236,537 | \$ 405,233 |
| Cost of revenues | 103,906 | 172,649 | 227,418 | 327,769 |
| Selling, general and administrative expenses | 15,652 | 19,679 | 31,882 | 38,870 |
| Other (income) expense, net | (37) | 152 | (62) | (37) |
| Operating (loss) income | (9,922) | 18,017 | (22,701) | 38,631 |
| Foreign currency exchange (gain) loss | (590) | (199) | (561) | 97 |
| Interest expense, net | 1,600 | 2,649 | 3,250 | 5,876 |
| (Loss) income from continuing operations before income taxes | (10,932) | 15,567 | (25,390) | 32,658 |
| Provision for income taxes | (2,145) | 5,481 | (4,599) | 11,176 |
| (Loss) income from continuing operations | (8,787) | 10,086 | (20,791) | 21,482 |
| Loss from discontinued operations, net of tax | | (84) | | (129) |
| Net (loss) income | \$ (8,787) | \$ 10,002 | \$ (20,791) | \$ 21,353 |
| Basic weighted average common shares outstanding | 88,514 | 88,762 | 88,430 | 89,454 |
| Diluted weighted average common shares outstanding | 88,514 | 89,073 | 88,430 | 89,671 |
| (Loss) income per common share basic and diluted: | | | | |
| (Loss) income from continuing operations | \$ (0.10) | \$ 0.11 | \$ (0.24) | \$ 0.24 |
| Loss from discontinued operations | | | | |
| Net (loss) income per common share | \$ (0.10) | \$ 0.11 | \$ (0.24) | \$ 0.24 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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Newpark Resources, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

| (In thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net (loss) income | \$ (8,787) | \$ 10,002 | \$ (20,791) | \$ 21,353 |
| Changes in interest rate swap and cap, net of tax | 255 | 824 | 327 | 43 |
| Foreign currency translation adjustments | 6,074 | 2,957 | 2,957 | 2,959 |
| Comprehensive (loss) income | \$ (2,458) | \$ 13,783 | \$ (17,507) | \$ 24,355 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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Newpark Resources, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| (In thousands) | Six Months Ended June 30, | |
|--|----------------------------------|-----------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (20,791) | \$ 21,353 |
| Adjustments to reconcile net (loss) income to net cash provided by operations: | | |
| Net loss from discontinued operations | | 129 |
| Non-cash charges | 941 | |
| Depreciation and amortization | 14,093 | 14,554 |
| Stock-based compensation expense | 1,190 | 2,314 |
| Provision for deferred income taxes | (6,256) | 9,118 |
| Provision for doubtful accounts | 1,533 | 1,336 |
| (Gain) loss on sale of assets | (265) | 445 |
| Change in assets and liabilities: | | |
| Decrease (increase) in receivables | 111,652 | (34,526) |
| Decrease (increase) in inventories | 12,658 | (707) |
| Decrease (increase) in other assets | 427 | (963) |
| (Decrease) increase in accounts payable | (45,083) | 4,394 |
| (Decrease) increase in accrued liabilities and other | (12,592) | 4,155 |
| Net operating activities of continuing operations | 57,507 | 21,602 |
| Net operating activities of discontinued operations | | 1,776 |
| Net cash provided by operating activities | 57,507 | 23,378 |
| Cash flows from investing activities: | | |
| Capital expenditures | (14,139) | (11,580) |
| Proceeds from sale of property, plant and equipment | 734 | 78 |
| Net cash used in investing activities | (13,405) | (11,502) |
| Cash flows from financing activities: | | |
| Net (payments) borrowings on lines of credit | (43,767) | 2,098 |
| Principal payments on notes payable and long-term debt | (195) | (1,014) |
| Proceeds from employee stock plans | 104 | 1,241 |
| Purchase of treasury stock | (212) | (10,039) |
| Net financing activities of continuing operations | (44,070) | (7,714) |
| Net financing activities of discontinued operations | | (63) |
| Net cash used in financing activities | (44,070) | (7,777) |
| Effect of exchange rate changes on cash | (1,573) | 447 |
| Net (decrease) increase in cash and cash equivalents | (1,541) | 4,546 |

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| | | |
|--|----------|-----------|
| Cash and cash equivalents at beginning of period | 8,252 | 5,741 |
| Cash and cash equivalents at end of period | \$ 6,711 | \$ 10,287 |
| Cash paid for: | | |
| Income taxes (net of refunds) | \$ 3,023 | \$ 3,988 |
| Interest | \$ 2,819 | \$ 5,410 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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NEWPARK RESOURCES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Newpark Resources, Inc. and our wholly-owned subsidiaries, which we refer to as we, our or us, have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission (SEC), and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008. Our fiscal year end is December 31, our second quarter represents the three month period ending June 30. The results of operations for the second quarter and first half of 2009 are not necessarily indicative of the results to be expected for the entire year.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of June 30, 2009, the results of our operations for the second quarter and first half of 2009 and 2008, and our cash flows for the first half of 2009 and 2008. All adjustments are of a normal recurring nature. Our balance sheet at December 31, 2008 reflects the audited financial statements at that date.

Selling, general and administrative expenses, as reported in our Condensed Consolidated Statements of Operations for the second quarter and first half of 2009 and 2008, include all expenses of this nature from our operating segments, as well as our corporate office. Previously, selling, general and administrative expense within our operating segments was reported within cost of revenues. As a result of this reclassification, \$14.7 million and \$29.1 million of expenses previously reported in cost of revenues for the second quarter and first half of 2008, respectively, are now reflected in selling, general and administrative expenses.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For further information, see Note 1 in our Annual Report on Form 10-K for the year ended December 31, 2008.

New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and as of the effective date, all existing accounting standard documents will be superseded. Accordingly, our financial statements for the third quarter of 2009 and all subsequent periods will reference the Codification as the sole source of authoritative literature.

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In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165), which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS 165 is effective for interim and annual periods ending after June 15, 2009, and accordingly, we adopted this Standard during the second quarter of 2009. SFAS 165 requires that companies evaluate subsequent events through the date of financial statement issuance. Accordingly, we have evaluated subsequent events through July 31, 2009.

On January 1, 2009, we adopted FASB SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The adoption did not have a material effect on our consolidated financial position or results of operations.

On January 1, 2009, we adopted FASB Staff Position 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142). The objective of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), Business Combinations, and other U.S. generally accepted accounting principles. The adoption did not have a material effect on our consolidated financial position or results of operations.

On January 1, 2009, we adopted FASB SFAS No. 141(R) (revised 2007), Business Combinations, (SFAS 141(R)) which provides revised guidance on the accounting for acquisitions of businesses. This standard changes the current guidance, requiring that all acquired assets, liabilities, minority interest and certain contingencies be measured at fair value, and certain other acquisition-related costs be expensed rather than capitalized. SFAS 141(R) applies to acquisitions that are effective after December 31, 2008, and application of the standard to acquisitions prior to that date is not permitted. The adoption did not have a material effect on our consolidated financial position or results of operations.

Table of Contents**Note 2 Earnings per Share**

The following table presents the reconciliation of the numerator and denominator for calculating income per share:

| (In thousands, except per share data) | Second Quarter | | First Half | |
|---|----------------|-----------|-------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Net (loss) income | \$ (8,787) | \$ 10,002 | \$ (20,791) | \$ 21,353 |
| Weighted average number of common shares outstanding | 88,514 | 88,762 | 88,430 | 89,454 |
| Add: Net effect of dilutive stock options and warrants | | 311 | | 217 |
| Adjusted weighted average number of common shares outstanding | 88,514 | 89,073 | 88,430 | 89,671 |
| Net (loss) income per common share: | | | | |
| Basic | \$ (0.10) | \$ 0.11 | \$ (0.24) | \$ 0.24 |
| Diluted | \$ (0.10) | \$ 0.11 | \$ (0.24) | \$ 0.24 |
| Stock options, restricted stock and warrants excluded from calculation of diluted earnings per share because they were anti-dilutive for the period | 5,827 | 4,029 | 5,659 | 4,577 |

For the second quarter and first half of 2009, we did not have any dilutive stock options or restricted stock. For the second quarter and first half of 2008, we had dilutive stock options and restricted stock of approximately 1.4 million shares and 1.0 million shares, respectively. The resulting net effect of stock options and restricted stock were used in calculating diluted income per share for this period.

On June 1, 2000, we completed the sale of 120,000 shares of Series B Convertible Preferred Stock, \$0.01 par value per share (the Series B Preferred Stock), and a warrant (the Series B Warrant) to purchase up to 1,900,000 shares of our common stock at an exercise price of \$10.075 per share, subject to anti-dilution adjustments. Prior to 2006, all outstanding shares of the Series B Preferred Stock were converted to common stock. The Series B Warrant was originally issued with a seven year life, expiring June 1, 2007. This warrant contains certain registration provisions, which, if not met, reduce the exercise price of the warrant by 2.5%, for each year we are not in compliance with the registration requirements, and extend the term of the warrant. Effective May 1, 2009, we became compliant with the registration requirements for the warrant. Previously, we were not in compliance with these requirements which resulted in adjustments to the exercise price and extended the term of the warrant. As of June 30, 2009, the Series B Warrant, as adjusted for certain anti-dilution provisions, remains outstanding and provides for the right to purchase up to 2,094,765 shares of our common stock at an exercise price of \$9.14, and expires in February 2012.

Note 3 Stock Based Compensation

During the second quarter of 2009, the Compensation Committee of our Board of Directors approved equity-based compensation to executive officers and other key employees. These awards included a grant of 526,700 shares of performance-based restricted stock units which vest subject to meeting certain performance criteria over a three year measurement period. The fair value on the date of grant for these awards was \$3.31.

Additionally, 2,556,310 stock options were granted at an exercise price of \$3.31, which provide for equal vesting over a four-year period with a term of ten years. The estimated fair value of the stock options on the grant date using the Black-Scholes option-pricing model was \$1.85. The assumptions used in the Black-Scholes model included a risk free rate of 2.93%, expected life of 5.22 years and expected volatility of 62.47%.

Non-employee directors each received a grant of 37,764 shares of restricted stock reflecting a total of 188,820 shares, which vest in full on the first anniversary of the grant date.

Table of Contents**Note 4 Receivables, net**

Receivables consist of the following:

| (In thousands) | June 30, 2009 | December 31, 2008 |
|---------------------------------|--------------------------|------------------------------|
| Trade receivables | \$ 85,598 | \$ 168,320 |
| Unbilled receivables | 16,206 | 42,692 |
| Gross trade receivables | 101,804 | 211,012 |
| Allowance for doubtful accounts | (5,676) | (4,259) |
| Net trade receivables | 96,128 | 206,753 |
| Notes and other receivables | 2,777 | 4,613 |
| Total receivables, net | \$ 98,905 | \$ 211,366 |

Note 5 Inventory

Inventory consists of the following:

| (In thousands) | June 30, 2009 | December 31, 2008 |
|---|--------------------------|------------------------------|
| Finished goods- mats | \$ 2,956 | \$ 4,701 |
| Raw materials and components: | | |
| Drilling fluids raw material and components | 134,165 | 144,138 |
| Supplies and other | 343 | 465 |
| Total raw materials and components | 134,508 | 144,603 |
| Total | \$ 137,464 | \$ 149,304 |

Note 6 Fair Value of Financial instruments

Our derivatives instruments consist of interest rate swap agreements entered into in January 2008 which effectively fix the underlying LIBOR rate on our borrowings under our term loan. The initial notional amount of the swap agreements totaled \$50.0 million reducing by \$10.0 million each December, matching the required principal payments under the term loan. As of June 30, 2009, \$40.0 million remained outstanding on the term loan. As a result of the swap agreements, we will pay a fixed rate of 3.74% plus the applicable LIBOR margin.

The swap agreements represent a cash flow hedge, entered into for the purpose of fixing a portion of our borrowing costs and thereby decreasing the volatility of future cash flows. These agreements are valued based upon level 2 fair value criteria, where the fair value of these instruments is determined using observable inputs, including quoted prices for similar assets/liabilities and market corroborated inputs as well as quoted prices in inactive markets. The fair value of the interest rate swap arrangements was a liability of \$1.0 million and \$1.3 million, net of tax as of June 30, 2009 and December 31, 2008, respectively, recorded within accrued liabilities.

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Our financial instruments include cash and cash equivalents, receivables, payables, debt, and certain derivative financial instruments. We believe the carrying values of these instruments approximated their fair values at June 30, 2009 and December 31, 2008.

At June 30, 2009 and December 31, 2008, the estimated fair value of total debt was \$144.8 million and \$188.2 million, respectively, consistent with the carrying value included in our consolidated balance sheets as of these dates.

Note 7 Commitments and Contingencies

Shareholder Actions

Settlement of Shareholder Derivative and Class Action Litigation

In connection with our announcement regarding an internal investigation commissioned by our Audit Committee in April 2006, and subsequent announcements, we were served with a number of shareholder class action and derivative lawsuits. These suits asserted claims against us and certain of our former officers and current and former directors alleging damages resulting from the loss of value in our common stock and, derivatively, for damages we allegedly suffered.

In April 2007, we announced that we reached a settlement of our pending derivative and class action litigation. The settlement received final approval from the U.S. District Court for the Eastern District of Louisiana on October 9, 2007. This settlement resolved all pending shareholder class and derivative litigation against us, our former and current directors, and former officers. As part of the settlement, however, we preserved certain claims against our former Chief Executive Officer and former Chief Financial Officer for matters arising from invoicing irregularities at Soloco Texas, LP and the backdating of stock options.

James D. Cole Arbitration

By letter dated April 25, 2007, counsel for James D. Cole, our former Chief Executive Officer and former director, notified us that Mr. Cole was pursuing claims against us for breach of his employment agreement and other causes of action. Mr. Cole sought recovery of approximately \$3.1 million purportedly due under his employment agreement and reimbursement of certain defense costs inc