

NEWPARK RESOURCES INC

Form 10-Q

November 07, 2007

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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 September 30, 2007

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer

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 October 24, 2007, a total of 90,100,704 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 NINE MONTHS ENDED
September 30, 2007

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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, plans, 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, 2006, 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.

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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, 2006.

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

| (In thousands, except share data) | September 30, 2007 (Unaudited) | December 31, 2006 |
|--|---|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,412 | \$ 12,736 |
| Receivables, net | 142,141 | 141,790 |
| Inventories | 108,319 | 107,778 |
| Deferred tax asset | 20,076 | 23,001 |
| Prepaid expenses and other current assets | 16,566 | 12,176 |
| Assets of discontinued operations | 87,780 | 102,365 |
| Total current assets | 382,294 | 399,846 |
| Property, plant and equipment, net | 160,319 | 152,207 |
| Goodwill | 62,028 | 54,624 |
| Deferred tax asset | | 7,096 |
| Other intangible assets, net | 17,503 | 8,236 |
| Other assets | 7,052 | 7,440 |
| | \$ 629,196 | \$ 629,449 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Foreign bank lines of credit | \$ 5,928 | \$ 10,938 |
| Current maturities of long-term debt | 3,066 | 4,058 |
| Accounts payable | 45,815 | 37,087 |
| Accrued liabilities | 35,299 | 40,439 |
| Liabilities of discontinued operations | 11,554 | 11,403 |
| Total current liabilities | 101,662 | 103,925 |
| Long-term debt, less current portion | 169,252 | 198,037 |
| Deferred tax liability | 858 | |
| Other non-current liabilities | 4,591 | 4,344 |
| Total liabilities | 276,363 | 306,306 |
| Stockholders equity: | 901 | 897 |

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Common Stock, \$0.01 par value, 100,000,000 shares authorized, 90,092,704
and 89,675,292 shares issued and outstanding, respectively

| | | |
|--|-------------------|-------------------|
| Paid-in capital | 448,940 | 444,763 |
| Accumulated other comprehensive income | 14,283 | 7,940 |
| Retained deficit | (111,291) | (130,457) |
| Total stockholders equity | 352,833 | 323,143 |
| | \$ 629,196 | \$ 629,449 |

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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Table of Contents**Newpark Resources, Inc.**
Consolidated Statements of Operations
(Unaudited)

| (In thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | \$ 153,778 | \$ 147,618 | \$ 453,024 | \$ 435,160 |
| Cost of revenues | 133,756 | 122,846 | 393,176 | 376,028 |
| | 20,022 | 24,772 | 59,848 | 59,132 |
| General and administrative expenses | 4,567 | 5,050 | 17,833 | 13,842 |
| Operating income | 15,455 | 19,722 | 42,015 | 45,290 |
| Foreign currency exchange (gain) loss | (57) | 16 | (279) | (496) |
| Interest expense, net | 3,950 | 6,160 | 12,182 | 15,210 |
| Income from continuing operations before income taxes | 11,562 | 13,546 | 30,112 | 30,576 |
| Provision for income taxes | 3,950 | 3,813 | 10,586 | 9,936 |
| Income from continuing operations | 7,612 | 9,733 | 19,526 | 20,640 |
| (Loss) income from discontinued operations, net of tax | (229) | (11,998) | 2,563 | (10,797) |
| Loss from disposal of discontinued operations, net of tax | | | (2,173) | |
| Net income (loss) | \$ 7,383 | \$ (2,265) | \$ 19,916 | \$ 9,843 |
| Weighted average shares outstanding | | | | |
| Basic | 90,085 | 89,417 | 89,965 | 89,281 |
| Diluted | 90,542 | 89,658 | 90,503 | 89,872 |
| Basic and diluted earnings per share | | | | |
| Income from continuing operations | \$ 0.08 | \$ 0.11 | \$ 0.22 | \$ 0.23 |
| (Loss) income from discontinued | (0.00) | (0.14) | 0.00 | (0.12) |
| Income (loss) per share | \$ 0.08 | \$ (0.03) | \$ 0.22 | \$ 0.11 |

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

| (In thousands) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net income (loss) | \$ 7,383 | \$ (2,265) | \$ 19,916 | \$ 9,843 |
| Changes in fair value of interest rate swap and cap, net of tax | 84 | (378) | (88) | (378) |
| Foreign currency translation adjustments | 2,255 | 426 | 6,431 | 1,391 |
| Comprehensive income (loss) | \$ 9,722 | \$ (2,217) | \$ 26,259 | \$ 10,856 |

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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

| (In thousands) | Nine Months Ended September 30, | |
|---|------------------------------------|-----------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 19,916 | \$ 9,843 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Net (income) loss from discontinued operations | (2,563) | 10,797 |
| Net loss on disposal of discontinued operations | 2,173 | |
| Depreciation and amortization | 14,835 | 15,908 |
| Stock-based compensation expense | 2,270 | 1,711 |
| Provision for deferred income taxes | 8,385 | 2,564 |
| Provision for doubtful accounts | 530 | 1,074 |
| Loss (gain) on sale of assets | 193 | (614) |
| Change in assets and liabilities: | | |
| Decrease (increase) in accounts and notes receivable | 3,872 | (21,420) |
| Increase in inventories | (1,340) | (24,593) |
| Increase in other assets | (3,994) | (3,752) |
| Increase (decrease) in accounts payable | 7,606 | (5,546) |
| (Decrease) Increase in accrued liabilities and other | (4,099) | 11,463 |
| Net operating activities of continuing operations | 47,784 | (2,565) |
| Net operating activities of discontinued operations | 15,018 | 10,388 |
| Net cash provided by operating activities | 62,802 | 7,823 |
| Cash flows from investing activities: | | |
| Capital expenditures | (13,227) | (20,162) |
| Proceeds from sale of property, plant and equipment | 888 | 1,210 |
| Business acquisitions | (21,919) | |
| Insurance proceeds from property, plant and equipment claim | | 3,471 |
| Net investing activities of continuing operations | (34,258) | (15,481) |
| Net investing activities of discontinued operations | 153 | (9,246) |
| Net cash used in investing activities | (34,105) | (24,727) |
| Cash flows from financing activities: | | |
| Net (payments) borrowings on lines of credit | (15,766) | 17,078 |
| Proceeds from long-term financing | | 150,000 |
| Payments on notes payable and long-term debt, net | (20,806) | (156,217) |
| Proceeds from exercise of stock options and ESPP | 2,016 | 4,385 |
| Excess tax benefit from exercise of stock options | | 640 |
| Net financing activities of continuing operations | (34,556) | 15,886 |

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| | | |
|--|-----------------|---------------|
| Net financing activities of discontinued operations | (45) | (646) |
| Net cash (used in) provided by financing activities | (34,601) | 15,240 |
| Effect of exchange rate changes | 580 | 226 |
| Net decrease in cash and cash equivalents | (5,324) | (1,438) |
| Cash and cash equivalents at beginning of period | 12,736 | 7,344 |
| Cash and cash equivalents at end of period | \$ 7,412 | \$ 5,906 |
| Cash Paid for: | | |
| Income taxes (net of refunds) | \$ 4,686 | \$ 2,391 |
| Interest | \$ 12,486 | \$ 14,696 |

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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NEWPARK RESOURCES, INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 Basis of Presentation and Significant Accounting Policies

The accompanying unaudited consolidated condensed 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 and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. These consolidated condensed 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, 2006. The results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the entire year.

In the opinion of management, the accompanying unaudited consolidated condensed financial statements reflect all adjustments necessary to present fairly our financial position as of September 30, 2007, and the results of our operations and our cash flows for the three and nine months ended September 30, 2007 and 2006. All adjustments are of a normal recurring nature. Our balance sheet at December 31, 2006 has been derived from the audited financial statements at that date. We have reclassified certain amounts related to discontinued operations previously reported to conform with the presentation at September 30, 2007.

The preparation of financial statements in conformity with generally accepted accounting principles 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, 2006.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements (SFAS 157). This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. This pronouncement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently assessing the impact of applying SFAS 157 on the Company's consolidated financial statements.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159). This standard provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are currently assessing the impact of applying SFAS 159's elective fair value option on the Company's consolidated financial statements.

Table of Contents**Note 2 Discontinued Operations**

During October 2007, we entered into a definitive agreement to sell our U.S. Environmental Services business for \$81.5 million in cash, and potentially an additional \$8 million under the terms of the five-year earn out provision in the agreement. The sale is expected to close during the fourth quarter of 2007 subject to regulatory approval, completion of environmental due diligence and other customary requirements. In conjunction with this action, we exited certain Environmental Services activities in the Canadian market during the third quarter of 2007, which resulted in charges of \$1.1 million (\$0.6 million after-tax), including \$0.5 million for the impairment of goodwill. As a result of these developments, we reclassified all assets, liabilities and results of our U.S. and Canadian Environmental Services operations to discontinued operations for all periods presented.

During the third quarter of 2007, we completed the sale of a sawmill facility that supplies wood products to third parties and provides wooden mat materials for our Mats and Integrated Services segment. As a result of this sale agreement, which was executed during the second quarter of 2007, we recorded an impairment loss on the pending sale of discontinued operations of \$3.2 million (\$2.2 million after-tax).

During 2006, we decided to shut down the operations of Newpark Environmental Water Solutions, LLC (NEWS), and dispose of the assets related to this operation along with the disposal and water treatment operations in Wyoming which existed prior to the start up of NEWS. The operations ceased at these facilities during the fourth quarter of 2006, and all remaining assets of these businesses are held for sale. As a result of separate agreements entered into during 2007 to sell substantially all remaining assets and settle outstanding claims related to the NEWS business, a \$0.9 million charge (\$0.6 million after-tax) was recorded during the second quarter of 2007.

We reclassified all assets, liabilities and the results of operations for the above businesses to discontinued operations for all periods presented. Summarized results of operations from discontinued operations are as follows:

| (In thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | \$17,080 | \$ 22,523 | \$60,468 | \$ 66,577 |
| (Loss) income from discontinued operations before income taxes | (431) | (17,272) | 4,830 | (15,544) |
| (Loss) income from discontinued operations, net of tax | (229) | (11,998) | 2,563 | (10,797) |
| Loss from disposal of discontinued operations, before tax | | | (4,095) | |
| Loss from disposal of discontinued operations, net of tax | | | (2,173) | |
| | 8 | | | |

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Assets and liabilities of discontinued operations are as follows as of September 30, 2007 and December 31, 2006:

| (In thousands) | September 30, 2007 | December 31, 2006 |
|--|-----------------------|----------------------|
| Current assets | \$ 12,154 | \$ 19,878 |
| Property, plant and equipment | 71,804 | 75,836 |
| Other assets | 3,822 | 6,651 |
| Assets of discontinued operations | \$ 87,780 | \$ 102,365 |
| Accounts payable | \$ 8,555 | \$ 8,837 |
| Accrued liabilities | 2,746 | 2,268 |
| Other liabilities | 253 | 298 |
| Liabilities of discontinued operations | \$ 11,554 | \$ 11,403 |

Note 3 Earnings per Share

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

| (In thousands, except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income (loss) | \$ 7,383 | \$ (2,265) | \$ 19,916 | \$ 9,843 |
| Weighted average number of common shares outstanding | 90,085 | 89,417 | 89,965 | 89,281 |
| Add: Net effect of dilutive stock options, warrants and restricted stock | 457 | 241 | 538 | 591 |
| Adjusted weighted average number of common shares outstanding | 90,542 | 89,658 | 90,503 | 89,872 |
| Basic and diluted income (loss) per share | \$ 0.08 | \$ (0.03) | \$ 0.22 | \$ 0.11 |

For the three and nine months ended September 30, 2007, we had dilutive stock options of approximately 0.9 million shares and 1.2 million shares, respectively, which were assumed to be exercised using the treasury stock method. For the nine months ended September 30, 2006, we had dilutive stock options and warrants of approximately 2.2 million shares which were assumed to be exercised using the treasury stock method. The resulting net effects of stock options and warrants were used in calculating diluted income per share for these periods.

During the three and nine months ended September 30, 2007, we issued 22,834 shares and 341,396 shares in conjunction with the exercise of stock options, respectively. During the nine months ended September 30, 2007, we issued 50,000 shares in conjunction with the vesting of time restricted shares.

Options and warrants to purchase a total of approximately 4.7 million shares and 3.9 million shares, of common stock were outstanding during the three and nine months ended September 30, 2007, respectively, but were not included in the computation of diluted income per share because they were anti-dilutive. Options and warrants to purchase a total of approximately 5.9 million

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shares and 4.0 million shares, of common stock were outstanding during the three and nine months ended September 30, 2006, respectively, but were not included in the computation of diluted income per share because they were anti-dilutive.

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 2007, 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 warrants by 2.5%, compounding annually, and extending the term of the warrant. As of September 30, 2007, the Series B Warrant, as adjusted for certain anti-dilution provisions, remains outstanding and provides for the right to purchase up to 1,928,972 shares of our Common Stock at an exercise price of \$9.43. We are currently not in compliance with the registration provisions and do not currently expect to establish an effective registration of this warrant until November 2007. Upon completion of the registration, the remaining life of the warrant will be approximately 16 months.

Note 4 Acquisition

In August 2007, we completed the acquisition of substantially all of the assets and operations of SEM Construction Company (SEM), headquartered in Grand Junction, Colorado. SEM is a full-service well site construction company engaged in construction, reclamation, maintenance, and general rig work for the oil and gas industry at drilling locations throughout Western Colorado. SEM is reported within the Mats and Integrated Services segment and generated sales of \$1.2 million during the third quarter of 2007.

Total cash consideration paid during the third quarter was \$21.3 million which was funded by borrowing on our revolving credit facility. The final purchase price is subject to adjustment for actual working capital conveyed at closing, for which \$0.3 million is expected to be paid during the fourth quarter of 2007.

The following table summarizes the estimated fair value of the assets acquired at the date of acquisition:

| (In thousands) | August 31, 2007 |
|---|--------------------|
| Receivables, net | \$ 2,093 |
| Property, plant and equipment | 4,800 |
| Goodwill | 4,576 |
| Employment and non-compete agreements (4.5 year life) | 1,914 |
| Customer relationships (10.6 year life) | 8,294 |
| Purchase price allocated | \$ 21,677 |

We are accounting for this acquisition using the purchase method of accounting and are in the process of finalizing the valuations of certain assets acquired; consequently, the initial allocation of the purchase price is preliminary and subject to change for a period of one year following the acquisition, although management believes it is materially accurate as of September 30, 2007.

Table of Contents**Note 5 Receivables, net**

Receivables consisted of the following at September 30, 2007 and December 31, 2006:

| (In thousands) | September 30, 2007 | December 31, 2006 |
|---------------------------------|--------------------------|-------------------------|
| Trade receivables | \$ 120,441 | \$ 118,480 |
| Unbilled revenues | 24,651 | 22,891 |
| Notes and other receivables | 431 | 2,735 |
| Gross accounts receivables | 145,523 | 144,106 |
| Allowance for doubtful accounts | (3,382) | (2,316) |
| Receivables, net | \$ 142,141 | \$ 141,790 |

Note 6 Inventory

Inventory consisted of the following at September 30, 2007 and December 31, 2006:

| (In thousands) | September 30, 2007 | December 31, 2006 |
|---|--------------------------|-------------------------|
| Finished goods-composite mats | \$ 5,360 | \$ 14,458 |
| Raw materials and components: | | |
| Drilling fluids raw material and components | 97,151 | 89,240 |
| Supplies and other | 5,808 | 4,080 |
| Total raw materials and components | 102,959 | 93,320 |
| Total inventory | \$ 108,319 | \$ 107,778 |

Note 7 Commitments and Contingencies***Shareholder Litigation*****Settlement of Shareholder Derivative and Class Action Litigation**

On April 13, 2007, we announced that, subject to court approval, we had reached a settlement of our pending derivative and class action litigation described below. The settlement received final approval from the U.S. District Court for the Eastern District of Louisiana on October 9, 2007. Under the terms of the settlement, we paid \$1.6 million, and our directors and officers liability insurance carrier paid \$8.3 million. A portion of these amounts will be used to pay administration costs and legal fees. This settlement resolves 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 Chief Financial Officer for matters arising from the potential invoicing irregularities at Soloco Texas, LP and the backdating of stock options. The history and nature of this litigation is set forth below.

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Derivative Actions

On August 17, 2006, a shareholder derivative action was filed in the 24th Judicial District Court for the Parish of Jefferson, captioned: *Victor Dijour, Derivatively on Behalf of Nominal Defendant Newpark Resources, Inc., v. James D. Cole, et al.* On August 28, 2006, a second shareholder derivative action was filed in the 24th Judicial District Court for the Parish of Jefferson, captioned: *James Breaux, Derivatively on Behalf of Nominal Defendant Newpark Resources, Inc., v. James D. Cole, et al.* These actions, which are substantially similar, were brought, allegedly for the benefit of us, in which we are sued as a nominal defendant in each of these actions, against James D. Cole, our former Chief Executive Officer and director; Matthew W. Hardey, our former Chief Financial Officer; William Thomas Ballantine, our former Chief Operating Officer, President and director; and directors David P. Hunt, Alan J. Kaufman, Roger C. Stull and James H. Stone. The plaintiffs in these respective actions allege improper backdating of stock option grants to our executives, improper recording and accounting of the backdated stock option grants and producing and disseminating false financial statements and other SEC filings to our shareholders and the market. The plaintiffs do not seek any recovery against us. Instead, they seek unspecified damages from the individual defendants on our behalf for alleged breach of fiduciary duty, and against Messrs. Cole and Hardey, and also against Mr. Ballantine in the second shareholder derivative action, for alleged unjust enrichment. These two cases were voluntarily dismissed without prejudice by the plaintiffs on December 29, 2006 and have subsequently been re-filed in the U.S. District Court for the Eastern District of Louisiana. The complaints in the re-filed cases are virtually identical to the complaints filed in the *Galchutt* and *Pomponi* cases described below.

On October 5, 2006, a third shareholder derivative action was filed in the U.S. District Court, Eastern District of Louisiana, captioned: *Vincent Pomponi, Derivatively on Behalf of Newpark Resources, Inc., v. James D. Cole, et al.* On October 6, 2006, a fourth derivative action was filed in the U.S. District Court, Eastern District of Louisiana, captioned: *David Galchutt, Derivatively on Behalf of Newpark Resources, Inc., v. James D. Cole, et al.* These complaints are virtually identical and were brought, allegedly for the benefit of us, in which we are sued as a nominal defendant, against Messrs. Cole and Hardey and current and previous directors Hunt, Kaufman, Stone, Stull, Jerry W. Box, F. Walker Tucei, Jr., Gary L. Warren, Ballantine, Michael Still, Dibo Attar, Phillip S. Sassower, Lawrence I. Schneider and David C. Baldwin, alleging improper financial reporting and backdating of stock option grants to our employees. The plaintiffs do not seek any recovery against us. Instead, they seek unspecified damages from Messrs. Cole and Hardey for alleged disgorgement under the Sarbanes-Oxley Act of 2002 and alleged rescission, against Messrs. Hardey, Hunt, Kaufman, Stone, Ballantine, Still, Attar, Sassower, Schneider, and Baldwin for alleged violation of Section 14(a) of the Securities Exchange Act of 1934, which we refer to as the Exchange Act, and against all of the individual defendants on behalf of us for alleged unjust enrichment, breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and constructive trust. All four derivative actions are consolidated in Judge Livaudais' court.

Pursuant to previously existing indemnification agreements, we have advanced to the officer and director defendants the fees they have incurred to defend themselves, subject to repayment in the event of a determination that they are not entitled to indemnification. We have also agreed to advance to the former directors the fees they have incurred to defend themselves subject to certain restrictions on reasonableness and agreements to repay in the event of a determination that they are not entitled to indemnification.

Our Board of Directors formed a Special Litigation Committee consisting of David C. Anderson and James W. McFarland, recently elected independent directors who are not named in any of the derivative actions, to review the allegations in these actions and in any other derivative actions that may be filed that involve the same subject matter, and the

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Special Litigation Committee retained outside counsel to assist it. After conducting its investigation and analysis of the claims made in the derivative actions, the Special Litigation Committee approved the settlement of the derivative actions on the terms outlined above. The Special Litigation Committee recommended that we preserve our causes of action against Messrs. Cole and Hardey, but that we not pursue claims against any other officer or director of our company named in the derivative actions.

Class Action Lawsuit

Between April 21, 2006 and May 9, 2006, five lawsuits asserting claims against us for violation of Section 10(b) of the Exchange Act, and SEC Rule 10b-5 were filed in the U.S. District Court for the Eastern District of Louisiana. All five lawsuits have been transferred to Judge Marcel Livaudais who has consolidated these actions as *In re: Newpark Resources, Inc. Securities Litigation*. Following the filing of the Amendment No. 2 to our Annual Report on Form 10-K/A for 2005 (filed on October 10, 2006), the plaintiffs filed (on November 9, 2006) a Consolidated Class Action Complaint for Securities Fraud (the Consolidated Class Complaint) against us and the following directors and officers: James Cole, Matthew Hardey, Thomas Ballantine, David Hunt, Alan Kaufman, James Stone, Roger Stull and Jerry Box. The Consolidated Class Complaint alleges that we and the individual defendants made false and misleading statements in violation of Sections 10(b) and 20(a) of the Exchange Act. These allegations arise from our disclosure of an internal investigation into potential irregularities in the processing and payment of invoices at one of our subsidiaries, Soloco Texas, LP, and alleged improper granting, recording and accounting of backdated grants of our stock options to our executives. The Consolidated Class Complaint does not specify the damages sought by the Plaintiffs.

Pursuant to previously existing indemnification agreements, we have advanced to the officer and director defendants the fees they have incurred to defend themselves, subject to repayment in the event of a determination that they are not entitled to indemnification.

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James D. Cole Demand Letter

By letter dated April 25, 2007, counsel for James D. Cole, our former Chief Executive Officer and former director, notified us that Mr. Cole is pursuing claims against us for breach of his employment agreement and other causes of action. Mr. Cole seeks recovery of approximately \$3.1 million purportedly due under his employment agreement and reimbursement of certain defense costs incurred in connection with the shareholder litigation and our internal investigation. Mr. Cole also claims that he is entitled to the sum of \$640,000 pursuant to the non-compete provision of his employment agreement. We believe that Mr. Cole's claims regarding his employment agreement are without merit and intend to vigorously defend any action brought by him. The employment agreement with Mr. Cole provides for arbitration of certain disputes and Mr. Cole has recently notified us that he has submitted his employment agreement claims to arbitration.

Matthew Hardey Lawsuit

On November 2, 2007, we were served with a lawsuit filed on behalf of Matthew Hardey, our former Chief Financial Officer, against Newpark Resources and Paul Howes. The lawsuit was filed on October 9, 2007, in the 24th Judicial District Court in Jefferson Parish, Louisiana. The lawsuit includes a variety of allegations arising from our internal investigation and Mr. Hardey's termination, including breach of contract, unfair trade practices, defamation, and negligence. The lawsuit does not specify the amount of damages being sought by Mr. Hardey. We dispute the allegations in the lawsuit and intend to vigorously defend our position.

Other Matters

In response to our announcement to exit the business activities of NEWS, we received a letter from counsel for the Mexican company in September 2006 demanding the return of certain equipment and pay it an aggregate of \$4.0 million for the period that this equipment was utilized, technical support and administrative costs, unreimbursed costs of the equipment, and lost profits due to the Mexican company's dedication of time to our water treatment business. We have resolved this claim by returning certain equipment belonging to the Mexican company and providing to them certain assets from the former NEWS operations, which was completed during the third quarter of 2007. A charge of \$0.4 million was recorded in the second quarter of 2007 related to the decommissioning of one of the former NEWS facilities and our obligations to return the equipment.

We have also been advised that the Securities and Exchange Commission (SEC) has opened a formal investigation into the matters disclosed in Amendment No. 2 to our Annual Report on Form 10-K/A filed on October 10, 2006. We are cooperating with the SEC in their investigation.

In addition, we and our subsidiaries are involved in litigation and other claims or assessments on matters arising in the normal course of business. In the opinion of management, any recovery or liability in these matters should not have a material effect on our results of operations or financial position.

Table of Contents**Note 8 Segment Data**

Summarized financial information concerning our reportable segments is shown in the following table:

| (In thousands) | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|--------------------------|-------------------|--------------------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues by segment: | | | | |
| Fluids Systems and Engineering | \$ 129,986 | \$ 125,130 | \$ 386,447 | \$ 352,287 |
| Mats and Integrated Services | 23,792 | 22,488 | 66,577 | 82,873 |
| Total revenues | \$ 153,778 | \$ 147,618 | \$ 453,024 | \$ 435,160 |
| Segment operating income: | | | | |
| Fluids Systems and Engineering | \$ 15,467 | \$ 20,178 ⁽¹⁾ | \$ 48,420 | \$ 45,981 ⁽¹⁾ |
| Mats and Integrated Services | 4,555 | 4,594 | 11,428 | 13,151 |
| Total segment operating income | 20,022 | 24,772 | 59,848 | 59,132 |
| General and administrative expenses | 4,567 | 5,050 | 17,833 | 13,842 |
| Total operating income | \$ 15,455 | \$ 19,722 | \$ 42,015 | \$ 45,290 |

⁽¹⁾ Includes \$3.5 million and \$4.3 million of insurance recoveries as a result of Hurricanes Katrina and Rita in the three and nine months ended September 30, 2006, respectively.

Note 9 Uncertain Tax Positions

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). As a result of the implementation of FIN 48, we performed a comprehensive review of possible uncertain tax positions in accordance with recognition standards established by FIN 48. As a result of the implementation of FIN 48, we recognized a liability of approximately \$0.8 million resulting in a corresponding increase to the retained deficit balance.

We recognize accrued interest and penalties related to uncertain tax positions in interest and general and administrative expenses, respectively. No interest or penalties have been accrued due to tax net operating loss carry forwards.

Our United States and international income tax returns for 2003 and subsequent years remain subject to examination by tax authorities.

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

The following discussion of our financial condition, results of operations, liquidity and capital resources should be read together with our consolidated financial statements and Notes to Consolidated Financial Statements contained in this report as well as our Annual Report on Form 10-K for the year ended December 31, 2006.

We are a diversified oil and gas industry supplier and we currently have two operating segments: Fluids Systems and Engineering and Mats and Integrated Services. We provide these products and services principally to the oil and gas exploration and production (E&P) industry in the U.S. Gulf Coast, West Texas, U.S. Mid-continent, U.S. Rocky Mountains, Canada, Mexico, Brazil and areas of Europe and North Africa surrounding the Mediterranean Sea. Further, we are expanding our presence outside the E&P sector, particularly in Mats and Integrated Services, where we are marketing to utilities, municipalities, and government sectors.

Following a comprehensive review of all of our businesses in the first quarter of 2007, we decided to explore strategic alternatives with regards to our Environmental Services business, which was historically reported as a third segment to our business. Subsequently, we initiated a sale process for this business and entered into an agreement in October 2007 to sell the U.S. Environmental Services business for \$81.5 million in cash and potentially an additional \$8 million which can be earned under a five-year earn out provision. This sale is expected to close during the fourth quarter of 2007. In conjunction with this process, we decided to exit certain Environmental Services activities within the Canadian market during the third quarter of 2007, which resulted in a \$1.1 million charge, including \$0.5 million for the impairment of goodwill. As a result of these developments, we reclassified all assets, liabilities and results of operations of our U.S. and Canadian Environmental Services business to discontinued operations for all periods presented.

The decision to sell the Environmental Services business is part of our strategic plan to focus our attention and capital on our Fluids Systems and Engineering and Mats and Integrated Services businesses. In August 2007, we completed the acquisition of substantially all of the assets and operations of SEM Construction Company (SEM), for cash consideration of \$21.3 million. SEM is a full-service well site construction company engaged in construction, reclamation, maintenance, and general rig work for the oil and gas industry at drilling locations throughout Western Colorado and is reported within the Mats and Integrated Services segment.

Also during August 2007, we completed the sale of a sawmill facility for \$4.1 million, which was historically reported within the Mats & Integrated Services segment. As a result of the sales agreement for this transaction, we recorded an impairment loss on the sale of discontinued operations of \$3.2 million (\$2.2 million after-tax) in the second quarter of 2007 and reclassified all assets, liabilities and results of operations to discontinued operations, for all periods presented.

In October 2007, we received final court approval of the previously announced settlement of our pending derivative and class action litigation. Under the terms of the settlement, we paid \$1.6 million, and our directors and officers' liability insurance carrier paid \$8.3 million. The settlement resolves all pending shareholder class and derivative litigation against us, our former and current directors, and our former officers. As part of the settlement, however, we preserved certain claims against our former Chief Executive Officer and Chief Financial Officer for matters arising from the potential invoicing irregularities at Soloco Texas, LP and the backdating of stock options. As of September 30, 2007, we have accrued our estimated costs required to conclude this settlement.

Results of Operations

Our operating results depend in large measure on oil and gas drilling activity levels in the markets we serve, as well as on the depth of drilling, which governs the revenue potential of each

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well. These levels, in turn, depend on oil and gas commodity pricing, inventory levels and product demand. Rig count data is the most widely accepted indicator of drilling activity. Key average rig count data for the last seven quarters is listed in the following table:

| | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 1Q07 | 2Q07 | 3Q07 |
|--------------------|-------|-------|-------|-------|-------|-------|-------|
| U.S. rig count | 1,521 | 1,635 | 1,721 | 1,719 | 1,734 | 1,757 | 1,789 |
| Canadian rig count | 661 | 292 | 490 | 441 | 521 | 144 | 347 |

Derived from
Baker Hughes
Incorporated

Summarized financial information concerning our reportable segments is shown in the following table:

| (In thousands) | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|--------------------------|-------------------|--------------------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues by segment: | | | | |
| Fluids Systems and Engineering | \$ 129,986 | \$ 125,130 | \$ 386,447 | \$ 352,287 |
| Mats and Integrated Services | 23,792 | 22,488 | 66,577 | 82,873 |
| Total revenues | \$ 153,778 | \$ 147,618 | \$ 453,024 | \$ 435,160 |
| Segment operating income: | | | | |
| Fluids Systems and Engineering | \$ 15,467 | \$ 20,178 ⁽¹⁾ | \$ 48,420 | \$ 45,981 ⁽¹⁾ |
| Mats and Integrated Services | 4,555 | 4,594 | 11,428 | 13,151 |
| Total segment operating income | 20,022 | 24,772 | 59,848 | 59,132 |
| General and administrative expenses | 4,567 | 5,050 | 17,833 | 13,842 |
| Total operating income | \$ 15,455 | \$ 19,722 | \$ 42,015 | \$ 45,290 |
| Segment Operating Margin: | | | | |
| Fluids Systems and Engineering | 11.9% | 16.1% | 12.5% | 13.1% |
| Mats and Integrated Services | 19.1% | 20.4% | 17.2% | 15.9% |

(1) Includes \$3.5 million and \$4.3 million of insurance recoveries as a result of Hurricanes Katrina and Rita in the three and nine months ended September 30,

2006,
respectively.

The amounts above are shown net of intersegment transfers.

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Table of Contents**Quarter Ended September 30, 2007 Compared to Quarter Ended September 30, 2006****Fluids Systems and Engineering***Revenues*

Total revenues by region for this segment were as follows for the three months ended September 30, 2007 and 2006 (dollars in millions):

| | 2007 | 2006 | Change | |
|--|-------------|-------------|---------------|------|
| | | | \$ | % |
| Drilling fluid sales and engineering: | | | | |
| North America | \$ 77.6 | \$ 80.8 | \$ (3.2) | (4)% |
| Mediterranean | 25.5 | 15.7 | 9.8 | 62 |
| Total drilling fluid sales and engineering | 103.1 | 96.5 | 6.6 | 7 |
| Completion fluids and services | 16.9 | 17.9 | (1.0) | (5) |
| Industrial materials | 10.0 | 10.7 | (0.7) | (7) |
| Total | \$ 130.0 | \$ 125.1 | \$ 4.9 | 4% |

North American drilling fluid sales and engineering revenues decreased 4% to \$77.6 million for the quarter ended September 30, 2007, as compared to \$80.8 million for the quarter ended September 30, 2006. Overall North American rig activity decreased 3%, while the average number of North American rigs serviced by this business segment decreased by 10%. This decrease in rigs serviced is primarily related to the weak Canadian market, as well as a lower level of drilling activity in the regions that we serve and a lower level of drilling activity within our customer base in the U.S. market. The decrease in number of rigs serviced is partially offset by a 7% increase in our average revenue per rig, resulting from our focused efforts to concentrate on deeper and more complex wells, including the off-shore Gulf Coast markets.

In the quarter ended September 30, 2007, our Mediterranean revenues increased 62% over the same period in 2006. This increase was driven by increased rig activity and continued penetration into the North African and Eastern European markets.

Revenues in our completion fluids and industrial materials businesses decreased \$1.7 million for the quarter ended September 30, 2007, or 6%, as compared to the same period in 2006.

Operating Income

Operating income for this segment decreased \$4.7 million for the quarter ended September 30, 2007 on a \$4.9 million increase in revenues, compared to the same period in 2006, resulting in a decline in operating margin from 16.1% to 11.9%. The third quarter of 2006 included \$3.5 million of insurance recoveries from Hurricanes Katrina and Rita. Excluding the insurance recoveries, the operating profit in the North American business units decreased by \$2.9 million on a \$4.9 million decrease in revenues, reflecting the impact of higher operating costs, including significant increases in barite transportation costs. This decrease was partially offset by a \$1.7 million increase in Mediterranean operating income generated on a \$9.8 million increase in revenues, as the incremental gross profits generated by the higher sales were partially offset by higher transportation and other operating costs.

Table of Contents**Mats and Integrated Services***Revenues*

Total revenues for this segment consisted of the following for the three months ended September 30, 2007 and 2006 (dollars in millions):

| | 2007 | 2006 | Change | |
|------------------------------------|----------------|----------------|---------------|-----------|
| | | | \$ | % |
| Mat rental and integrated services | \$ 15.6 | \$ 16.2 | \$ (0.6) | (4%) |
| Mat sales | 7.7 | 5.8 | 1.9 | 33 |
| Non-oilfield services and other | 0.5 | 0.4 | 0.1 | 25 |
| Total | \$ 23.8 | \$ 22.4 | \$ 1.4 | 6% |

Total mat rental and integrated services revenues decreased by \$0.6 million in the quarter ended September 30, 2007, compared to the same period in 2006 as the impact of the lower rental volume driven by weakness in the Gulf Coast rig count was partially offset by higher activity in other areas, improved pricing, and \$1.2 million of sales generated by the SEM business acquired in August 2007. Oilfield mat rental volume decreased 13% for the quarter ended September 30, 2007 compared to the same period in 2006, while the average price per square foot increased 4%.

Mat sales primarily consist of export sales of composite mats to various international markets and wooden mats to Canada. The increase in mat sales is attributable to a \$3.4 million increase in composite mats sales, partially offset by lower wooden mat sales in the weak Canadian market.

Operating Income

Mats and Integrated Services operating income was unchanged at \$4.6 million for the quarter ended September 30, 2007 on a \$1.4 million increase in revenues, compared to the same period in 2006, reflecting a decrease in operating margins to 19.1% from 20.4%. The decrease in operating margin is primarily attributable to the change in sales mix, as certain overhead and administrative costs associated with the mat rental and integrated services remain relatively fixed, despite a decrease in sales volume.

General and Administrative Expense

General and administrative expense decreased \$0.5 million to \$4.6 million for the quarter ended September 30, 2007 from the comparable period of 2006. The decrease in spending is primarily attributable to \$0.8 million of consulting fees in the quarter ended September 30, 2006 associated with strategic planning projects. This decrease is partially offset by higher share-based compensation expense during the quarter ended September 30, 2007.

Interest Expense, net

Interest expense, net totaled \$3.9 million for the quarter ended September 30, 2007 compared to \$6.2 million for the quarter ended September 30, 2006. The quarter ended September 30, 2006 included \$1.2 million of charges associated with prepayment penalties under barite financing agreements and the write-off of unamortized debt issuance costs. The remainder of the decrease is attributable to lower debt balances in 2007.

Table of Contents**Provision for Income Taxes**

We recorded an income tax provision of \$3.9 million, reflecting an income tax rate of 34.1% in the quarter ended September 30, 2007, compared to an income tax provision of \$3.8 million, reflecting an income tax rate of 28.1% in the quarter ended September 30, 2006. The higher income tax rate in 2007 is primarily attributable to the impact of higher state tax rates along with discrete tax benefits recorded in 2006 that did not recur in 2007.

Discontinued Operations

As described above, discontinued operations includes all of the assets, liabilities and results of operations associated with the former Environmental Services segment, as well as the sawmill facility sold in August 2007, which was historically reported within the Mats & Integrated Services segment.

Also, during 2006, we announced the decision to shut down of operations of Newpark Environmental Water Solutions, LLC (NEWS), and dispose of the assets related to this operation along with the disposal and water treatment operations in Wyoming which existed prior to the start up of NEWS. The operations ceased at these facilities during the fourth quarter of 2006, and all remaining assets of these businesses are held for sale. As a result, all assets, liabilities and continuing exit costs of this business are reported as discontinued operations.

During the quarter ended September 30, 2007, discontinued operations generated a pre-tax operating loss of \$0.4 million. This loss included \$0.9 million of operating losses from the sawmill facility prior to the August 2007 sale and \$0.3 million on-going costs associated with the satisfaction of liabilities in the exited NEWS business. These losses were partially offset by \$0.8 million of pre-tax income generated by the Environmental Services business, which included \$1.9 million of earnings from the U.S. operation, offset by a \$1.1 million loss resulting from impairments and other exit costs in the Canadian operation.

During the quarter ended September 30, 2006, discontinued operations generated a pre-tax operating loss of \$17.3 million. This loss included a \$17.8 million impairment related to the shut down of the NEWS business. The total NEWS loss of \$19.3 million was partially offset by \$2.2 million of pre-tax income generated by the Environmental Services business, and a \$0.2 million loss from the sawmill facility.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006**Fluids Systems and Engineering*****Revenues***

Total revenues by region for this segment were as follows for the nine months ended September 30, 2007 and 2006 (dollars in millions):

| | 2007 | 2006 | Change | |
|--|-------------|-------------|---------------|----------|
| | | | \$ | % |
| Drilling fluid sales and engineering: | | | | |
| North America | \$ 239.5 | \$ 227.0 | \$ 12.5 | 6% |
| Mediterranean | 60.8 | 42.0 | 18.8 | 45 |
| Total drilling fluid sales and engineering | 300.3 | 269.0 | 31.3 | 12 |
| Completion fluids and services | 53.9 | 53.3 | 0.6 | 1 |
| Industrial materials | 32.2 | 30.0 | 2.2 | 7 |
| Total | \$ 386.4 | \$ 352.3 | \$ 34.1 | 10% |

North American drilling fluid sales and engineering revenues increased 6% to \$239.5 million

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for the nine months ended September 30, 2007, as compared to \$227.0 million for the nine months ended September 30, 2006. Overall North American rig activity decreased 2% while the average number of North American rigs serviced by this business segment decreased by 8%. This decrease in rigs serviced is primarily related to the weak Canadian market as well as a lower level of drilling activity in the regions that we serve and a lower level of drilling activity within our customer base in the U.S. market. The decrease in number of rigs serviced is partially offset by a 15% increase in our average revenue per rig, resulting from our focused efforts to concentrate on deeper and more complex wells, including the off-shore Gulf Coast markets.

In the nine months ended September 30, 2007, our Mediterranean revenues increased 45% over the same period in 2006. This increase was driven by increased rig activity and continued penetration into the North African and Eastern European markets.

Revenues in our completion fluids and industrial materials businesses increased \$2.8 million for the nine months ended September 30, 2007, or 3%, as compared to the same period in 2006.

Operating Income

Operating income for this segment increased \$2.4 million for the nine months ended September 30, 2007 on a \$34.1 million increase in revenues, compared to the same period in 2006, resulting in a decline in operating margin from 13.1% to 12.5%. The nine months ended September 30, 2006 included \$4.3 million of insurance recoveries from Hurricanes Katrina and Rita. Excluding this item, the operating profit in the North American business units increased \$1.1 million on a \$15.1 million decrease in revenues, reflecting the impact of higher operating costs, including significantly higher barite transportation costs, as well as the continued operating costs in the Canadian business which have remained relatively flat, despite the decline in sales volumes. The Mediterranean operating income increased \$5.6 million on an \$18.8 million increase in revenues.

Mats and Integrated Services**Revenues**

Total revenues for this segment consisted of the following for the nine months ended September 30, 2007 and 2006 (dollars in millions):

| | 2007 | 2006 | Change | |
|------------------------------------|----------------|----------------|------------------|--------------|
| | | | \$ | % |
| Mat rental and integrated services | \$ 46.6 | \$ 42.6 | \$ 4.0 | 9% |
| Mat sales | 16.6 | 37.6 | (21.0) | (56) |
| Non-oilfield services | 3.4 | 2.7 | 0.7 | 26 |
| Total | \$ 66.6 | \$ 82.9 | \$ (16.3) | (20%) |

Total mat rental and integrated services increased by \$4.0 million in the nine months ended September 30, 2007, compared to the same period in 2006, as the impact of the lower rental volume was more than offset by improved pricing combined with a higher mix of re-rental activity and services. Oilfield mat rental volume decreased 17% for the nine months ended September 30, 2007 compared to the same period in 2006, while the average price per square foot increased 17%.

Mat sales primarily consist of composite mats to international markets and export sales of wooden mats to Canada. The decline in mat sales is primarily attributable to a \$17.9 million decrease in Canadian sales, due to lower drilling activity and non-recurring wooden mat sales recorded in the nine months ended September 30, 2006. Composite mat export sales were also down in the nine months ended September 30, 2007 from the comparable period of 2006.

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Operating Income

Mats and Integrated Services operating income declined \$1.7 million for the nine months ended September 30, 2007 on a \$16.3 million decrease in revenues, compared to the same period in 2006. Operating margins improved to 17.2% for the nine months ended September 30, 2007 as compared to 15.9% for the same period in 2006. The improvement in operating margin is primarily attributable to favorable pricing and strong market conditions experienced in the first quarter of 2007, combined with \$1.4 million of cost reductions achieved in 2007, resulting from organizational restructuring and general and administrative workforce reductions completed during the first quarter of 2007.

General and Administrative Expense

General and administrative expense increased \$4.0 million to \$17.8 million for the nine months ended September 30, 2007 from the comparable period of 2006. The nine months ended September 30, 2007 included \$3.4 million of legal expenses related to the shareholder class action and derivative litigation, including a \$1.6 million settlement charge. The nine months ended September 30, 2006 included \$2.0 million of expenses related to the internal investigation conducted by our Audit Committee which resulted in the restatement of financial statements for the year ended December 31, 2005. The remaining spending increase of \$2.6 million is primarily attributable to an increase in salaries and other employee related costs resulting from the relocation of the corporate office and the addition of new corporate executive officers and staff positions.

Interest Expense, net

Interest expense, net totaled \$12.2 million for the nine months ended September 30, 2007 as compared to \$15.2 million for the comparable period of 2006. The nine months ended September 30, 2006 included \$1.2 million of charges associated with prepayment penalties under barite financing agreements and the write-off of unamortized debt issuance costs. The remainder of the decrease is attributable to lower debt balances in 2007.

Provision for Income Taxes

For the nine months ended September 30, 2007, we recorded an income tax provision of \$10.6 million, reflecting an income tax rate of 35.1%. For the nine months ended September 30, 2006, we recorded an income tax provision of \$9.9 million, reflecting an income tax rate of 32.5%. The higher income tax rate in 2007 is primarily attributable to the impact of higher state tax rates along with discrete tax benefits recorded in 2006 that did not recur in 2007.

Discontinued Operations

During the nine months ended September 30, 2007, discontinued operations generated pre-tax income of \$4.2 million (\$2.3 million after-tax). The Environmental Services business generated \$6.9 million of pre-tax income, which includes \$8.0 million of earnings from the U.S. operation, offset by a \$1.1 million loss resulting of impairments and other exit costs in the Canadian operation. This income was partially offset by operating losses of \$1.0 million from the sawmill facility prior to the August 2007 sale and \$1.7 million of losses from the exited NEWS business.

During the nine months ended September 30, 2006, discontinued operations generated a pre-tax loss of \$15.5 million (\$10.8 million after-tax). The NEWS business generated a \$21.2 million pre-tax loss including a \$17.8 million impairment associated with the shut down of this business. This was partially offset by \$6.7 million of pre-tax income generated by the Environmental Services business, while the sawmill facility generated a \$1.0 million loss.

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Pre-tax losses from the disposal of discontinued operations were \$3.2 million (\$2.2 million after-tax) for the nine months ended September 30, 2007, reflecting the impairment of the sawmill facility assets to sales price during the second quarter of 2007.

Liquidity and Capital Resources

Cash generated from operating activities during the nine months ended September 30, 2007 totaled \$62.8 million. Net income adjusted for non-cash items generated \$45.7 million of cash during the period, while cash provided by operating activities of discontinued operations was \$15.0 million, and changes in working capital provided \$2.0 million of cash.

Net cash used in investing activities was \$34.1 million, including \$13.2 million of capital expenditures and \$21.9 million associated with acquisitions. This was partially offset by \$1.0 million of net cash provided by disposals and discontinued operations.

Net cash used in financing activities during the nine months ended September 30, 2007 totaled \$34.6 million and included \$36.6 million in net debt repayments. These repayments were primarily funded by net income, \$5.3 million reduction in idle cash balances, along with \$2.0 million in proceeds from employee stock plans.

We anticipate that our working capital requirements for continuing operations will remain consistent with the changes in revenue in the near term. Cash generated by net income, the anticipated sale of the Environmental Services business, along with our continued focus on improving our collection cycle are expected to be adequate to fund this increase in working capital.

Our long term capitalization was as follows as of:

| | September 30, 2007 | December 31, 2006 |
|--|--------------------------|-------------------------|
| Long-term debt: | | |
| Term Credit Facility | \$ 133,316 | \$ 148,125 |
| Credit facility-revolver | 35,282 | 44,825 |
| Other, primarily mat financing | 654 | 5,087 |
| Total long-term debt, less current portion | 169,252 | 198,037 |
| Stockholders' equity | 352,833 | 323,143 |
| Total capitalization | \$ 522,085 | \$ 521,180 |
| Long-term debt to long-term capitalization | 32.4% | 38.0% |

In August 2006, we entered into a Term Credit Facility, which has an aggregate face amount of \$150.0 million, a five-year term and a current interest rate of LIBOR plus 3.00%, based on our corporate family ratings by Moody's and Standard & Poor's. The maturity date of the Term Credit Facility is August 18, 2011.

In December 2006, we entered into a Revolving Credit Facility, which has a maximum aggregate face amount of \$100.0 million and matures on June 25, 2011. The Revolving Credit Facility is secured by a first lien on our U.S. accounts receivable and inventory and by a second lien on our U.S. tangible and intangible assets. Availability under the Revolving Credit Facility is based on a percentage of our eligible consolidated accounts receivable and inventory as defined in the Revolving Credit Facility.

At September 30, 2007, we had \$35.3 million outstanding under the \$100 million Revolving Credit Facility and \$3.7 million in letters of credit issued and outstanding, leaving \$61.0 million of availability. The Revolving Credit Facility bears interest at our choice of either a specified prime rate (7.75% at September 30, 2007), or a LIBOR rate plus a spread determined quarterly based upon the amount of the prior quarter average availability under the Revolving Credit Facility (6.91% at

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September 30, 2007). The weighted average interest rates on the outstanding balances under the credit facilities as of September 30, 2007 and December 31, 2006 were 7.11% and 7.63%, respectively.

Both the Term Credit Facility and Revolving Credit Facility contain a fixed charge coverage ratio covenant and a debt to EBITDA ratio. As of September 30, 2007, we were in compliance with the financial covenants contained in these facilities. The Term Credit Facility and the Revolving Credit Facility also contain covenants that significantly limit our ability to pay dividends on our common stock, incur additional debt and repurchase our common stock.

With respect to additional off-balance sheet liabilities, we lease most of our office and warehouse space, barges, rolling stock and certain pieces of operating equipment under operating leases.

Except as described in the preceding paragraphs, we are not aware of any material expenditures, significant balloon payments or other payments on long-term obligations or any other demands or commitments, including off-balance sheet items to be incurred within the next 12 months. Inflation has not materially impacted our revenues or income.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, which requires us to make assumptions, estimates and judgments that affect the amounts reported. We periodically evaluate our estimates and judgments related to uncollectible accounts and notes receivable, customer returns, reserves for obsolete and slow moving inventory, impairments of long-lived assets, including goodwill and other intangibles and our valuation allowance for deferred tax assets. Our estimates are based on historical experience and on our future expectations that we believe to be reasonable. The combination of these factors forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from our current estimates and those differences may be material.

For additional discussion of our critical accounting estimates and policies, see *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our Annual Report on Form 10-K for the year ended December 31, 2006. Our critical accounting policies have not changed materially since December 31, 2006, except for the adoption of Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 which we refer to as *FIN 48*, in Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates and changes in foreign currency rates. A discussion of our primary market risk exposure in financial instruments is presented below.

Interest Rate Risk

Our policy historically has been to manage exposure to interest rate fluctuations by using a combination of fixed and variable-rate debt. At September 30, 2007, we had total debt outstanding of \$178.2 million, all of which is subject to variable rate terms.

Our Term Credit Agreement requires that we enter into, and thereafter maintain, interest rate management transactions, such as interest rate swap arrangements, to the extent necessary to provide that at least 50% of the aggregate principal amount of the Term Credit Facility is subject to

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either a fixed interest rate or interest rate protection for a period of not less than three years from the date of execution. To satisfy this requirement, we entered into an interest rate swap arrangement for the period from September 22, 2006 through March 22, 2008, which fixes the LIBOR rate applicable to 100% of the principle amount under the Term Credit Facility at 5.35% plus a spread based on our corporate family ratings by Moody's and Standard & Poor's. In addition, we entered into an interest rate cap arrangement that provides for a maximum LIBOR rate of 6.00% on the principal amount of \$68.9 million for the period from March 22, 2008 through September 22, 2009. We paid a fee of \$170,000 for the interest rate cap arrangement. Through this swap arrangement, we have effectively fixed the interest rate on \$133.3 million, or 74.8%, of our total debt outstanding as of September 30, 2007.

The fair value of the Term Credit Facility totaled \$130.7 million at September 30, 2007, as compared to the recorded balance of \$133.3 million. The fair value of the interest rate swap is a \$0.2 million asset as of September 30, 2007. The fair value of the interest rate cap is \$22,000 as of September 30, 2007 as compared to the original cost of \$170,000.

As of September 30, 2007, Ava, S.p.A, our European fluids systems and engineering subsidiary, which we refer to as Ava, had a swap arrangement in which Ava received a floating rate from a bank and paid a rate which varied based on inflation. Under the terms of the swap, Ava receives an annual payment from the bank based on a Euro notional amount of 4.0 million times the Euribor rate in effect as of the end of the determination period, and pays an annual amount to the bank based on the notional amount times a rate which varies according to both the Euribor rate and the published inflation rate for the Euro area. This arrangement requires annual settlements and matures in February 2015. At September 30, 2007, the fair value of this arrangement represents a liability of approximately \$0.7 million.

The remaining \$38.6 million of debt outstanding at September 30, 2007 bears interest at a floating rate. At September 30, 2007, the weighted average interest rate under our floating-rate debt was approximately 7.10%. A 200 basis point increase in market interest rates during 2007 would cause our annual interest expense to increase approximately \$0.4 million, net of taxes, resulting in less than a \$0.01 per diluted share reduction in annual earnings.

Foreign Currency

Our principal foreign operations are conducted in Canada, Brazil and in areas surrounding the Mediterranean Sea. We have foreign currency exchange risks associated with these operations, which are conducted principally in the foreign currency of the jurisdictions in which we operate. Historically, we have not used off-balance sheet financial hedging instruments to manage foreign currency risks when we enter into a transaction denominated in a currency other than our local currencies because the dollar amount of these transactions has not warranted our using hedging instruments. However, during the quarter ended March 31, 2005, our Canadian subsidiary committed to purchase approximately \$2.0 million of barite from one of our U.S. subsidiaries and we entered into a foreign currency forward contract arrangement to reduce its exposure to foreign currency fluctuations related to this commitment. During the quarter ended March 31, 2007, this contract expired and we have not entered into a similar contract.

ITEM 4. Controls and Procedures

(a) We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principle executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation and oversight of our principle executive officer and principal financial officer, evaluated the design and effectiveness of our disclosure controls and procedures as of the end of

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the period covered by this report. Based on that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2007.

(c) Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, we used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) entitled Internal Controls Integrated Framework. As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2006, in conducting this evaluation, the following material weaknesses were identified in our internal control over financial reporting:

- § Management did not adequately monitor certain control practices to foster an environment that allowed for a consistent and open flow of information and communication between those who initiated transactions and those who were responsible for the financial reporting of those transactions, principally at one of our subsidiaries, Soloco Texas, LP. This control deficiency resulted in 2006 adjustments that were recorded by management and related to accounts receivable and revenues; and
- § Management did not maintain effective controls over the recording of intangible assets. This control deficiency resulted in 2006 adjustments that were recorded by management and related to intangible assets and cost of revenues.

We implemented certain corrective actions in 2006, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006. In order to further address the identified material weaknesses, management implemented additional corrective measures during 2007 including:

- § We have distributed our Corporate Compliance and Business Ethics Manual (Manual) to all U.S. employees and are in the process of distributing the Manual to our international employees. We have also established a process to train all management level employees regarding the policies in the Manual and have established procedures for employees to certify they have read and understand the policies.
- § We have activated our enhanced fraud hotline. We have also implemented an education campaign to inform employees of the hotline and its availability.
- § We have implemented procedures to provide assurances that no side agreements exist between us, our subsidiaries or employees and our significant vendors or customers.
- § We have further strengthened our controls in our Mats and integrated services segment surrounding the purchasing of products and services, particularly as they relate to receiving products at the operating locations.
- § We have implemented a policy that requires senior division management approval prior to entering into any transaction to sell products or services to a customer that is also a vendor.
- § Our Intellectual Property Committee, which was established in 2006 and became operational in 2007, is responsible for the oversight and review of the establishment of intangible assets on our books, setting of the useful lives of intangible assets, the periodic review of the useful lives of intangible assets and the periodic review for potential impairment of intangible assets. This committee meets on a quarterly basis to review our intangible assets.

We believe that the corrective actions described above, taken together with the corrective actions taken in 2006, remedied the identified material weaknesses described above, and have improved both our disclosure controls and procedures and internal control over financial reporting. However, these controls have not been tested as extensively as required for the annual evaluation under Section 404 of the Sarbanes-Oxley Act of 2002. Additionally, there may be some additional control procedures implemented in the future to further strengthen the controls over financial reporting

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There were no changes in our internal control over financial reporting during the quarter ended September 30, 2007, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. Legal Proceedings

The information set forth in the legal proceedings section of Note 7, Commitments and Contingencies, to our consolidated financial statements included in this Quarterly Report on Form 10-Q is incorporated by reference into this Item 1.

ITEM 1A. Risk Factors

There have been no material changes during the period ended September 30, 2007 in our risk factors as set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) None.

(c) None.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

- 10.1 Memberships Interests Agreement by and among Newpark Resources, Inc., Newpark Drilling Fluids, LLC, Newpark Texas LLC, Trinity TLM Acquisitions, LLC and Trinity Storage Services, LP.
- 31.1 Certification of Paul L. Howes pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of James E. Braun pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Paul L. Howes pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of James E. Braun pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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NEWPARK RESOURCES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 6, 2007

NEWPARK RESOURCES, INC.

By: /s/ Paul L. Howes
Paul L. Howes, President and
Chief Executive Officer
(Principal Executive Officer)

By: /s/ James E. Braun
James E. Braun, Vice President and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Gregg Piontek
Gregg Piontek, Vice President,
Controller and
Chief Accounting Officer
(Principal Accounting Officer)

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