CANARGO ENERGY CORP
Form PRE 14A
May 02, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT of 1934 (Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

þ Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

CANARGO ENERGY CORPORATION
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

TABLE OF CONTENTS

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS To Be Held on June 26, 2008
PROXY STATEMENT
2008 ANNUAL MEETING OF STOCKHOLDERS
PROPOSAL 1 -- ELECTION OF DIRECTORS
PROPOSAL 2 -- INCREASE OF AUTHORISED SHARE CAPITAL
PROPOSAL 3 -- APPROVAL OF AMENDMENT OF THE 2004 LONG TERM STOCK INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK ISSUABLE UNDER THE PLAN
DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
BOARD MEETINGS AND COMMITTEES
EXECUTIVE COMPENSATION
COMPENSATION COMMITTEE REPORT
SUMMARY COMPENSATION TABLE
SECURITY OWNERSHIP BY CERTAIN BENEFICIAL HOLDERS
REPORT OF THE AUDIT COMMITTEE
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE
OTHER MATTERS
FORM 10-K ANNUAL REPORT
STOCKHOLDER PROPOSALS FOR 2009 ANNUAL MEETING

Table of Contents

May , 2008

Dear Fellow Stockholder:

We invite you to attend the Annual Meeting of Stockholders on Thursday, June 26, 2008, at The American Stock Exchange, 86 Trinity Place, New York, N.Y. 10006. The meeting will begin promptly at 10:30 a.m., Eastern Time.

The enclosed Notice of Meeting and Proxy Statement not only describe the items that stockholders are being asked to consider and vote on at the meeting, but also provide you with important information about your Company.

At the meeting, you will hear a report on our business and, as a stockholder, you will be asked to vote on a number of important matters. We encourage you to vote on all matters listed in the enclosed Notice of Annual Meeting of Stockholders and Proxy Statement. The Board of Directors recommends a vote **FOR** each of the Company proposals described as Proposals 1, 2 and 3 in the Proxy Statement.

Whether or not you plan to attend the Annual Meeting of Stockholders in person, your vote is important. After reading the enclosed Notice and Proxy Statement, **please promptly submit your proxy by mail and, if you are a resident of the United States, you may instead submit your proxy by telephone or Internet in accordance with the instructions furnished on your proxy card**. If you vote by proxy card, please remember to sign, date and mail the card in the envelope provided.

If you are planning to attend the meeting in person, because of security procedures **you will be required to present government-issued photo identification** (e.g., driver s license or passport) to enter The American Stock Exchange on the day of the meeting. Inspection and checking of packages, bags and briefcases, among other measures, may be employed to enhance the security of those attending the meeting. These procedures may require additional time. Please plan accordingly.

We look forward to greeting those of you who are able to attend the Annual Meeting in New York.

Sincerely,

Vincent McDonnell
Chairman and Chief Executive Officer

YOUR VOTE IS IMPORTANT.

PLEASE PROMPTLY SUBMIT YOUR PROXY OR (WHERE PERMITTED) VOTE BY TELEPHONE OR VIA THE INTERNET.

CanArgo Energy Corporation
Registered Office: 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, USA

Table of Contents

CANARGO ENERGY CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on June 26, 2008

The Board of Directors of CanArgo Energy Corporation, a Delaware Corporation (the Company), hereby gives notice that the Annual Meeting of Stockholders of the Company will be held on June 26, 2008 at 10:30 a.m. Eastern Time at The American Stock Exchange, 86 Trinity Place, New York, NY, 10006 for the following purposes, as more fully described in the accompanying Proxy Statement:

1. To elect directors to hold office until the next Annual Meeting of Stockholders or until their successors are elected and qualified.

2. To approve the adoption of an amendment to the Company s Amended and Restated Certificate of Incorporation to increase the number of shares of Common Stock that the Company will have authority to issue from 500,000,000 to 1,000,000,000 shares.

3. To approve the amendment of the Company s 2004 Long Term Stock Incentive Plan (Plan) to increase the number of shares of Common Stock issuable under the Plan by an additional 17,500,000 shares to 35,000,000 shares.

4. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Only stockholders of record at the close of business on April 28, 2008 will be entitled to notice of, and to vote at, such meeting or any adjournments or postponements thereof. All holders of record of shares of the Company s Common Stock at the close of business on the record date are entitled to vote at the meeting by sending in the proxy voting form or, if they are United States residents, by registering their vote by telephone or via the Internet by the specified deadline.

BY ORDER OF THE BOARD OF DIRECTORS

Jeffrey Wilkins
Corporate Secretary

St. Peter Port
Guernsey, British Isles
2008

IMPORTANT: WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, SIGN, DATE AND MAIL PROMPTLY THE ACCOMPANYING PROXY CARD IN THE ENCLOSED RETURN ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES, OR, IF YOU ARE A STOCKHOLDER RESIDENT IN THE UNITED STATES, AUTHORISE THE INDIVIDUALS NAMED IN YOUR PROXY CARD TO VOTE YOUR SHARES BY CALLING THE TELEPHONE NUMBER OR USING THE INTERNET BY THE DEADLINE AS DESCRIBED IN THE INSTRUCTIONS INCLUDED WITH YOUR PROXY CARD. THIS WILL ENSURE THE PRESENCE OF A

QUORUM AT THE MEETING. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON IF YOU WISH TO DO SO EVEN IF YOU HAVE PREVIOUSLY SENT IN YOUR PROXY CARD OR REGISTERED YOUR VOTE BY TELEPHONE OR INTERNET.

Table of Contents

CANARGO ENERGY CORPORATION
P.O. Box 291, St Peter Port, Guernsey, GY1 3RR, British Isles

PROXY STATEMENT

2008 ANNUAL MEETING OF STOCKHOLDERS

CanArgo Energy Corporation (the Company) is furnishing this Proxy Statement and the enclosed proxy in connection with the solicitation of proxies by the Board of Directors of the Company for use at the Annual Meeting of Stockholders to be held on June 26, 2008 at 10:30 a.m. Eastern Time at The American Stock Exchange, 86 Trinity Place, New York, NY, 10006 and at any adjournments or postponements thereof (the Annual Meeting). The Proxy Statement and the enclosed proxy are first being sent to stockholders on or about May , 2008.

Only holders of the Company s common stock, par value $.10 per share (Common Stock) as of the close of business on April 28, 2008 (the Record Date) are entitled to vote at the Annual Meeting. Stockholders who hold shares of the Company in street name may vote at the Annual Meeting only if they hold a valid proxy from their broker. As of the Record Date, there were 242,107,390 shares of Common Stock outstanding. A majority of the outstanding shares of Common Stock entitled to vote at the Annual Meeting must be present in person or by proxy in order for there to be a quorum at the meeting. Stockholders of record who are present at the meeting in person or by proxy and who abstain from voting, including brokers holding customers shares of record who cause abstentions to be recorded at the meeting and broker non-votes, will be included in the number of stockholders present at the meeting for the purpose of determining whether a quorum is present. Generally, broker non-votes occur on a proposal when the broker is not permitted under applicable rules to vote on the proposal without instruction from the beneficial owner of the Common Stock and no instruction is given. If a broker, bank or other nominee holds your shares please make sure that you have communicated your voting instructions timely to the broker, bank or other nominee in order to ensure that your vote is counted.

How to Vote

Your vote is important and we appreciate your prompt attention to it. Registered United States stockholders can vote by telephone, the Internet or mail, as described on your proxy card. **Foreign stockholders, including Norwegian stockholders who hold their shares in the VPS System, may only vote by mail using the appropriate proxy card furnished to them in the enclosed envelope.** If you are a beneficial stockholder, please refer to your proxy card or the information forwarded by your broker, bank or other holder of record to see what options are available to you.

In order to vote via telephone or on the Internet, please have in front of you your proxy card. A phone number and website address are contained on the relevant proxy card. Upon entering either the phone number or the Internet address, you will be instructed on how to proceed. If you vote by telephone or on the Internet Web site, please **do not** return your proxy card by mail. You also may vote by submitting a ballot in person if you attend the meeting unless you hold your shares in street name or a broker, bank or other nominee holds your shares, in which case you must bring with you a properly executed proxy card signed by such broker, bank or other nominee or fiduciary. However, we encourage you to vote by proxy card, or, if you qualify, by telephone or on the Internet even if you plan to attend the meeting.

Registration and seating will begin at 10:00 a.m. Eastern Time. All stockholders attending the meeting will be asked to present valid government-issued picture identification, such as a driver s license or passport. Verification of stock ownership will be required at the meeting. If you own your shares in your own name or hold them through a broker, bank or other nominee (and can provide documentation showing ownership such as a letter or account statement from your broker, bank or other nominee) at the close of business on the Record Date (April 28, 2008), you will be permitted to attend the meeting. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Table of Contents

Each stockholder of record is entitled to one vote at the Annual Meeting for each share of Common Stock held by such stockholder on the Record Date. Stockholders do not have cumulative voting rights. All proxy cards received by the Company which are properly signed and have not been revoked will be voted in accordance with the instructions contained in the proxy cards or, if properly voted by telephone or via the Internet in accordance with instructions, as indicated by such votes. If a signed proxy card is received which does not specify a vote or an abstention and is not revoked prior to exercise, the shares represented by that proxy card will be voted as recommended by the Board of Directors as follows:

FOR the election of the director nominees;

FOR the approval of the amendment to the Company s Amended and Restated Certificate of Incorporation; and

FOR the approval of the amendment of the Company s 2004 Long Term Stock Incentive Plan to increase the number of shares of Common Stock issuable under the plan.

The Company does not anticipate, as of the date hereof, any matters to be voted upon at the Annual Meeting other than those stated in this Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders. If any other matters are properly brought before the Annual Meeting, to the extent allowed under Delaware law, the enclosed proxy card gives discretionary authority to the persons named as proxies to vote the shares represented by the proxy card in their discretion. Adjournment of our Annual Meeting may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by approval of the holders of Common Stock representing a majority of the votes present in person or by proxy at the Annual Meeting, whether or not a quorum exists, without further notice other than by an announcement made at the Annual Meeting.

Under Delaware law, the Company s Amended and Restated Certificate of Incorporation and the Amended and Restated Bylaws, if a quorum exists at the meeting, the affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors (**Proposal 1**). This means that directors receiving the most number of For votes will be elected as directors. A properly executed proxy marked Withhold authority with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum. Furthermore, with respect to the amendment of the Company s Amended and Restated Certificate of Incorporation (**Proposal 2**), the affirmative vote of a majority of the issued and outstanding shares of the Company s Common Stock is required for approval of the proposal and an abstention will result in a vote against the proposal. For each other item, including the amendment of the Company s 2004 Long Term Stock Incentive Plan (**Proposal 3**), the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked Abstain or, if properly voted as an abstention by telephone or via the Internet in accordance with instructions, with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, with respect to Proposals 2 and 3 an abstention will have the effect of a negative vote.

The Company requests that brokerage firms, bank nominees and other institutions that act as nominees or fiduciaries for owners of Common Stock forward this Proxy Statement and proxies to persons for whom they hold shares and obtain authorization for the execution of proxies. If shares are held in the name of a brokerage firm, bank or nominee, only the brokerage firm, bank or nominee can sign a proxy with respect to stockholders shares. Accordingly, such stockholder will not be able to vote their shares in person should they attend the meeting. Instead, the stockholder should contact the person responsible for their account and give instructions for a proxy representing their shares to be signed and voted as directed.

For shares held in street name through a broker, bank or other nominee, the broker, bank or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if stockholders do not give their broker or nominee specific instructions, their shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such broker non-votes will, however, be counted in determining whether there is a quorum.

A stockholder of record may revoke a proxy at any time before it is voted at the Annual Meeting by (a) delivering a proxy revocation or another duly executed proxy card bearing a later date to the Corporate Secretary of the Company or, if permitted, a later-dated vote by telephone or via the Internet or (b) attending the Annual Meeting and voting by ballot in person. If you hold shares through a broker, bank or other nominee, you may submit new voting instructions by contacting your broker, bank or other nominee. Attendance at the Annual Meeting will not revoke a proxy unless the stockholder actually votes in person at the meeting.

The proxy card accompanying this Proxy Statement is solicited by the Board of Directors of the Company. The Company will pay all of the costs of soliciting proxies. In addition to solicitation by mail, officers, directors and employees of the Company may solicit proxies personally, or by telephone, without receiving additional compensation. The Company has retained Georgeson Inc. in the United States and Gambit H & K AS in Norway to assist in the solicitation of proxies in connection with the Annual Meeting. The Company will pay Georgeson Inc. the firm s customary fees, expected to total approximately $47,000 plus expenses. The Company will pay Gambit H & K AS the firm s customary fees plus expenses, although services in respect of solicitation are included in the annual fee of $78,000 payable to Gambit H & K AS for general investor relations services they provide to the Company. The Company, if requested, will also pay brokers, banks and other fiduciaries who hold shares of Common Stock for beneficial owners for their reasonable out-of-pocket expenses of forwarding these materials to stockholders.

The Company s Annual Report on Form 10-K, as amended on Form 10-K/A, for the fiscal year ended December 31, 2007 (Annual Report) is enclosed with this Proxy Statement for each stockholder.

PROPOSAL 1 ELECTION OF DIRECTORS

The current term of office of all of the Company s directors expires at the 2008 Annual Meeting. A majority of the independent directors has nominated all five persons to be elected directors at the Annual Meeting to hold office until the next annual meeting of stockholders and until the election of their respective successors. All of the nominees are currently serving as directors and have indicated that they are willing and able to serve as directors.

Directors are elected by a plurality of votes cast at the meeting; any shares not voted (by abstention, broker non-vote, or otherwise) have no impact on the vote. If you do not wish your shares to be voted for a particular nominee, you may so indicate in the space provided on the proxy form or withhold authority. All proxies received by the Board of Directors will be voted **FOR** the nominees listed below if no direction to the contrary is given. Each of the nominees has consented to serve if elected. In the event that any nominee is unable or declines to serve, the proxies will be voted for the election of any alternate nominee who is designated by the Board of Directors.

The nominees for director are Vincent McDonnell, Jeffrey Wilkins, Michael Ayre, Russ Hammond and Anthony Perry.

Biographical information regarding each nominee is set forth in the section entitled Directors, Executive Officers and Corporate Governance *Management of the Company* below.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL (Proposal 1)

PROPOSAL 2 INCREASE OF AUTHORISED SHARE CAPITAL

On April 23, 2008, the Board of Directors approved conducting a proposed one for one rights offering to Common Stockholders (the Offering) at an exercise price of $0.10 per share. See the discussion below in the Section entitled Background and Reasons for the Proposal . As of April 28, 2008, the Company had 242,107,390 shares of Common Stock issued and outstanding. Assuming that shares reserved for issuance are issued pursuant to outstanding contractual commitments, options and warrants (see Shares Reserved for Future Issuance below for a discussion of shares reserved for issuance by the Company) and that the Offering is consummated as contemplated hereby and that the stockholders approve an amendment of the 2004 Plan to increase the number of shares of Common Stock issuable under the 2004 Plan by an additional 17,500,000 shares, to an aggregate of 35,000,000 shares (see **Proposal 3** below) and further excluding any additional shares of Common Stock being issued to a standby underwriter that the Company may successfully secure to subscribe for unsubscribed shares in the Offering, then the Company shall require an additional 206,083,328 shares of Common Stock

Table of Contents

to be authorized for issuance and assuming the Offering is fully subscribed the Company shall have 706,083,328 shares of Common Stock issued and outstanding on a fully diluted basis. See Shares Reserved for Future Issuance and Dilution below.

Accordingly, the Board of Directors unanimously adopted a resolution authorizing an amendment to the Company s Amended and Restated Certificate of Incorporation (the Certificate) to increase the total number of the Company s authorized shares of Common Stock from 500,000,000 shares to 1,000,000,000 shares, par value $0.10 per share. The proposed amendment is subject to approval by the Company s stockholders.

The Common Stock, including the additional shares proposed for authorization, do not have pre-emptive or similar rights, which means that current stockholders do not have a prior right to purchase any new issue of capital stock of the Company in order to maintain their proportionate ownership thereof. Thus, the issuance of additional shares of Common Stock might dilute, under certain circumstances, the ownership and voting rights of stockholders (see Dilution below). Each of the additional authorized shares of Common Stock will have the same rights and privileges as the currently authorized Common Stock.

The proposed amendment will modify the first sentence of paragraph (a) of Article Four of the Certificate to read as follows in its entirety:

(a) The total number of shares of all classes of stock which the Corporation shall have authority to issue is one billion five million (1,005,000,000), consisting of:

(1) Five million (5,000,000) shares of Preferred Stock, par value ten cents ($0.10) per share (the Preferred Stock); and

(2) One billion (1,000,000,000) shares of common stock, par value ten cents ($0.10) per share (the Common Stock).

The Company is currently authorized to issue 505,000,000 shares of capital stock, of which 500,000,000 are designated as Common Stock and 5,000,000 shares are designated as Preferred Stock. The proposed amendment would increase the total number of shares of authorized capital stock to 1,005,000,000 shares and the number of shares of Common Stock authorized to 1,000,000,000. The authorized shares of Common Stock were last increased by the stockholders at the Annual General Meeting in June 2007, when the number of shares was increased from 375,000,000 to 500,000,000 shares.

Shares Reserved for Future Issuance

As of April 28, 2008, 500,000,000 shares of Common Stock were authorized of which 242,107,390 shares of Common Stock were issued and outstanding leaving 257,892,610 currently authorized but unissued shares of common stock of which an aggregate of 67,118,548 shares have been reserved for future issuance: 45,270 shares in connection with the exchange of Exchangeable Shares previously issued by the Company in connection with an acquisition; 7,992,000 shares of Common Stock upon exercise of outstanding stock options granted under certain stock option plans; 34,911,111 shares issuable upon exercise of outstanding warrants; up to 8,732,667 reserved for issuance under our existing option plans; and up to 15,437,500 shares reserved for issuance in connection with certain existing contractual arrangements. No shares of capital stock were held by the Company as treasury stock and no shares of Preferred Stock were issued and outstanding.

Assuming that the Company s stockholders approve the proposal to increase the total number of the Company s authorized shares of Common Stock from 500,000,000 shares to 1,000,000,000 shares, par value $0.10 per share and approve an amendment of the 2004 Plan to increase the number of shares of Common Stock issuable under the 2004 Plan by an additional 17,500,000 shares, to an aggregate of 35,000,000 shares (see **Proposal 3** below) and the

Offering approved by the Board of Directors on April 23, 2008, at an exercise price of $0.10 per share, is consummated as contemplated hereby and further excluding any additional shares of Common Stock being issued to a standby underwriter that the Company may successfully secure to subscribe for unsubscribed shares in the Offering, then 484,214,780 shares of Common Stock would be issued and outstanding leaving 515,785,220 authorized but unissued shares of common stock of which an aggregate of 221,868,548 shares would be reserved for future issuance: 45,270 shares in connection with the exchange of Exchangeable Shares previously

Table of Contents

issued by the Company in connection with an acquisition; 7,992,000 shares of Common Stock upon exercise of outstanding stock options granted under certain stock option plans; 34,911,111 shares issuable upon exercise of outstanding warrants; up to 26,232,667 reserved for issuance under our existing option plans; and up to 152,687,500 shares reserved for issuance in connection with certain contractual arrangements (including conversion of the Notes). No shares of capital stock would be held by the Company as treasury stock and no shares of Preferred Stock would be issued and outstanding.

If the proposed amendment is adopted, it will become effective upon filing of the proposed amendment with the Delaware Secretary of State s Office.

Background and Reasons for the Proposal

We currently have sufficient cash on hand to support our operations at current levels through the third quarter 2008. In order to continue our operations after the third quarter 2008 at current levels, and to fund our planned 2008 capital expenditure program, we need to raise substantial funds. Our strategic plan includes funding the development of the Company s proven reserves at the Ninotsminda Field which we expect will significantly improve our revenues and cash flow in the short-term. Subject to financing being available, we would also target other potential reserves remaining both within and surrounding the main field area which have been identified as a result of an ongoing technical re-evaluation of the field. A combined production enhancement strategy for the Ninotsminda Field might include:

1. Drilling a new well into the undeveloped eastern part of the field. This would be a highly deviated well from the vicinity of the N98H surface location with up to two horizontal sections being completed in the Middle Eocene reservoir interval. The eastern part of the Ninotsminda Field has not been exploited because most of the area falls within an environmental protection zone where drilling is prohibited. The N98 horizontal well is the most easterly producing well on the field and, although not oriented in an optimal direction so as to best encounter the sub vertical fractures which are important for production, the well has produced approximately 510,000 barrels of oil to date and continues to produce at a steady rate of approximately 200 barrels of oil per day (bopd) with less than 1% water cut. More optimally oriented horizontal wells such as N4H and N100H1 initially tested at rates of approximately 2,000 bopd.

2. The use of new technology such as radial drilling to produce trapped oil from shallower reservoirs overlying the main Middle Eocene reservoir. Previous attempts to produce these zones using perforations were largely unsuccessful due to near well bore reservoir damage caused by unsuitable drilling fluids used in Soviet times. We believe that radial drilling could have the ability to reach beyond this damage and we are currently in discussion with a service provider both on the suitability and availability of this technology.

3. General workover activity such as the application of perforations to unproduced reservoir intervals and the use of water isolation techniques to suppress water flow and increase oil production.

4. Following the completion of testing operations at the Manavi 12 well, consideration may be given to mobilising CanArgo rig #2 to the N52 well, to complete the fishing operation commenced in 2007, add perforations to the reservoir interval and, if successful, put the well into production. This well was drilled in Soviet times, but never put into production due to operational problems. N52 is also located in the undeveloped eastern part of the Ninotsminda Field.

5. On the northern flank of the Ninotsminda Field is a potentially large accumulation of oil in the Oligocene interval which has been established by the N78 well. This well, drilled several years ago, initially tested oil at a rate of 1,074 bopd, but never produced at this high rate as a result of the incursion of water due to what is believed to be a poor

cement bond behind the casing. A new vertical well to the west of N78 is being considered in order to better exploit this accumulation.

As a result of management s discussions with major stockholders, creditors, and external financial advisors, we believe that a rights offering affords the best opportunity for the Company to raise finances to continue to fund our currently planned development activities in Georgia on our Ninotsminda Field and progress our strategy. Furthermore, management has had preliminary discussions with a potential investor which may be prepared to underwrite the Offering on a standby basis, subscribing for unsubscribed for shares at the subscription price, subject to the approval of the proposed amendment to the Corporation s Amended and Restated Certificate of Incorporation by stockholders, the execution and delivery of mutually agreeable definitive legal agreements and other documentation and the satisfaction of certain other customary conditions, including, without limitation, the declaration of effectiveness of an appropriate registration statement under the Securities Act of 1933, as amended (Securities Act), registering the Offering under the Securities Act, as well as, the receipt of all other applicable regulatory and stock exchange approvals.

In the event stockholders fail to approve the amendment increasing the number of authorized shares of Common Stock the Company will be unable to conduct the Offering as planned and, in management s view, the Company s opportunities for raising additional capital needed to continue operations will be significantly reduced and, as described in the Risk Factors section of the Company s Annual Report, the Company may be required to significantly curtail operations and to seek to dispose of assets, in either case with uncertain results.

Use of Proceeds

The Board of Directors currently intends to use the funds we expect to raise from the Offering (including any possible proceeds from a standby underwriting) principally to finance the Company s activities in Georgia. The following table sets out the use of gross proceeds assuming that the Offering is fully subscribed based on a subscription price of $0.10 per share for an aggregate issuance of 242,107,390 shares, although it is expected that customary offering fees and expenses will be incurred:

Use of Proceeds from a Fully Subscribed Offering of Rights to Subscribe for 242,107,390 Shares at $0.10 per share $000 s

Production enhancement program at the Ninotsminda Field which may include:	
the drilling of a new well in the eastern part of the Field with up to two horizontal completions;	$ 12.0
the drilling of a new vertical well on the northern flank of the Field;	
the evaluation of new technology such as radial drilling to produce trapped oil from shallower reservoirs overlying the main Field area; and	
general workover activity.	
On-going evaluation of the Manavi 12 well with a focus on increasing oil production	$ 3.0
Progress farm-out strategy in respect of other exploration acreage	$ 1.0
Repayment of indebtedness(1)	$ 5.0
General business development and working capital (including payment of expenses of the Offering)	$ 3.2
Total	**$ 24.2**

(1) The repayment of indebtedness would comprise payment of the Company s outstanding Subordinated Notes, which have a maturity date of September 1, 2009 and currently incur interest at a rate of 10% per annum.

The foregoing table represents management s current best estimate of the use of gross proceeds from the Offering (this does not take into consideration customary offering fees and expenses which would be normally expected to be incurred in connection with a registered public rights offering or any underwriting fees and expenses that may be incurred in connection with any standby underwriting). However, unforeseen or changing circumstances may alter the use and allocation of such proceeds.

In addition, the Board of Directors believes that it is advisable and in the best interests of the Company to have available additional authorized but unissued shares of Common Stock in an amount adequate to provide for the future business needs of the Company and to take advantage of future corporate opportunities. The increase in authorized Common Stock will not have any immediate effect on the rights of existing stockholders. However, the additional shares will be available for issuance from time to time by the Company, at the discretion of the Board of Directors, without further authorization by vote of the stockholders unless applicable law or regulation or stock exchange requirements otherwise require such authorization. These shares may be issued for any proper corporate

Table of Contents

purpose including, without limitation, in addition to the proposed Offering discussed above, acquiring other businesses in exchange for shares of Common Stock; entering into joint venture arrangements with other companies in which Common Stock or the right to acquire Common Stock are part of the consideration; stock splits or stock dividends; raising capital through the sale of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock; and attracting and retaining valuable employees and consultants by the issuance of additional stock, stock options or use of stock-based plans.

Although the Company may engage in the foregoing actions in the future, except for the issuance of additional stock options under the Company s 2004 Long Term Stock Incentive Plan (see **Proposal 3** below), the proposed Offering and the possible further sale of shares of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock to raise additional capital, no such actions involving the issuance of additional shares of Common Stock are pending as of the date hereof. As indicated in Use of Proceeds above, the Board of Directors would intend to use any funds raised from any such possible issuances to finance principally the Company s existing and proposed activities in Georgia.

If the proposed amendment is approved, the Board of Directors would be able to authorize the issuance of shares of Common Stock without the necessity, and related costs and delays, of either calling a special stockholders meeting or waiting for the next regularly scheduled meeting of stockholders in order to increase the authorized shares of Common Stock.

Dilution

The issuance of the additional shares of Common Stock could have the effect of diluting earnings per share and book value per share, which could adversely affect the Company s existing stockholders. As indicated in the Annual Report, the Company faces numerous risks. Among the most significant is its need for additional capital in order to implement its proposed business plan for 2008. It is the Board s belief, however, that the proposed Offering presents the best alternative for stockholders since it permits stockholders to participate in financing the Company s activities on the same basis that a third party financing source could be expected to provide funds to the Company but without existing stockholders suffering the same degree of dilution that a third party financing would create. As of April 28, 2008, the closing price of the Common Stock on The American Stock Exchange was $0.21. The proposed subscription price for shares in the Offering of $0.10 per share represents a 52% discount off such market price. In the event that the Offering is consummated as currently contemplated, under the terms of the Company s outstanding Senior Subordinated Convertible Guaranteed Notes due September 1, 2009 (Subordinated Notes) and the Company s outstanding 12% Subordinated Convertible Guaranteed Notes due June 28, 2010 (12% Subordinated Notes and together with the Subordinated Notes, collectively, the Notes) the price at which the holders of the Notes would be entitled to convert Notes into shares of Common Stock as well as the exercise price of certain warrants to purchase shares of Common Stock issued in connection with the 12% Subordinated Note shall reset from a current price of $1.00 per share to the subscription price in the Offering of $0.10 per share resulting in a potential increase in the total number of shares of Common Stock issuable in connection with the conversion of such Notes and the exercise of such warrants from an aggregate of 48,861,111 million shares as at April 28, 2008 to 186,111,111 million shares of Common Stock.

Assuming that the Offering is consummated in full and such Notes are fully converted and such warrants are fully exercised at the reset conversion and exercise prices, and assuming that all other shares reserved for issuance are not issued pursuant to outstanding contractual commitments, options and warrants (see Shares Reserved for Future Issuance above for a discussion of shares reserved for issuance by the Company) and further excluding any additional shares of Common Stock being issued to a standby underwriter that the Company may successfully secure to subscribe for unsubscribed shares in the Offering, then there will be an aggregate of 670,325,891 shares of Common Stock issued and outstanding, an increase in 428,218,501 shares over the amount issued and outstanding as of

April 28, 2008. The Company determined to conduct a rights offering to existing stockholders, as opposed to a public or private offering to third parties, in an attempt to reduce the potential dilution to existing stockholders any such offer to third parties would entail, assuming that the rights offering is fully subscribed for by stockholders. By way of illustration, our net tangible book value as of December 31, 2007 was approximately $37.9 million, or $0.16 per share of our Common Stock (based upon an aggregate of 242,107,390 shares outstanding as of December 31, 2007). Our net tangible book value per share represents the amount of our total tangible assets less the amount of total liabilities, divided by the number of shares of Common Stock outstanding. Dilution per share equals the difference between the amount per share paid by purchasers of shares of Common Stock in the Offering and the pro forma net tangible book value per share of our Common Stock immediately after the Offering. Without giving effect to any changes in net tangible book value after December 31, 2007 other than sale of the shares in the Offering and receipt of the gross proceeds, although it is expected that customary offering fees and expenses will be incurred, therefrom, our net tangible book value at December 31, 2007 would have been approximately $62.1 million or $0.09 per share of Common Stock. Absent the purchase of the shares offered in the Offering by existing stockholders and assuming that the Company is successful in securing a standby underwriter to subscribe for unsubscribed shares, this would represent an immediate decrease in net tangible book value of $.07 per share of Common Stock held by existing stockholders and an immediate dilution of $0.01 per share to the standby underwriter purchasing unsubscribed shares. If the Offering is fully subscribed for by existing stockholders they would suffer an immediate decrease in net tangible book value of $.07 per share of Common Stock held by them. The foregoing assumes no exercise of any outstanding options or warrants or issuances of Common Stock pursuant to existing contractual arrangements including upon conversion of the Notes. To the extent such options and warrants are exercised or additional shares are issued pursuant to such contractual arrangements there will be further dilution to stockholders.

Set forth below is a table illustrating the effective dilution to stockholders assuming a fully subscribed for Offering of 242,107,390 shares at the subscription price of $0.10 per share.

	$ Per Share	
Subscription price	$	0.10
Net tangible book value per share prior to Offering	$	0.16
Decrease per share attributable to the Offering	$	(0.07)
Pro forma net tangible book value per share after the Offering	$	0.09
Dilution in pro forma net tangible book value per share to purchasers	$	.0.01

The foregoing discussion of the possible Offering, the background and reasons for the Proposal, the use of proceeds from the Offering, the potential dilution that may be incurred by stockholders as a result of the Offering and related matters does not constitute an offer to sell or a solicitation of an offer to purchase any securities by the Company which offer can only be made pursuant to an effective registration statement filed pursuant to the Securities Act and in compliance with all other applicable securities laws and stock exchange rules and regulations.

Change of Control

Issuing additional shares of Common Stock may also have the effect of delaying or preventing a change of control of the Company. The Company s authorized but unissued Common Stock could be issued in one or more transactions that would make more difficult or costly, and less likely, a takeover of the Company. The proposed amendment to the Certificate is not being recommended in response to any specific effort of which the Company is aware to obtain control of the Company and the Board of Directors has no present intention to use the additional shares of Common Stock in order to impede a takeover attempt.

Vote Required

The affirmative vote of a majority of the issued and outstanding shares of Common Stock of the Company entitled to vote at the Annual Meeting is required for approval of this amendment to the Certificate to increase the Company s authorized shares of Common Stock. An abstention will, accordingly, result in a vote against the proposal.

8

Table of Contents

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOUR OF THIS PROPOSAL (Proposal 2)

Forward Looking Statements

The foregoing discussion, including, without limitation, regarding the proposed Offering, the future plans of the Company, and the descriptions set forth in Background and Reasons for the Proposal and Use of Proceeds above, contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. When used herein, the words estimate, project, anticipate, expect, intend, believe, hope, may and similar expressions, as well as will, could, shall and other indications of fu are intended to identify forward-looking statements. The forward-looking statements are based on our current expectations and speak only as of the date made. These forward-looking statements involve risks, uncertainties and other factors that in some cases have affected our historical results and could cause actual results in the future to differ significantly from the results anticipated in forward-looking statements made in this Proxy Statement. Important factors that could cause such a difference are discussed in the sections entitled Cautionary Statement Regarding Forward-Looking Statements , Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report accompanying this Proxy Statement and stockholders are urged to review the information set forth therein. You are cautioned not to place undue reliance on the forward-looking statements.

Although we believe our expectations reflected in forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will prove to have been correct.

In light of these risks, uncertainties and assumptions, the events anticipated by our forward-looking statements might not occur. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise.

PROPOSAL 3 APPROVAL OF AMENDMENT OF THE 2004 LONG TERM STOCK INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK ISSUABLE UNDER THE PLAN

At the Annual Meeting, the stockholders of the Company will be asked to approve an amendment of the 2004 Long Term Stock Incentive Plan (the 2004 Plan) to increase the number of shares of Common Stock issuable under the 2004 Plan by an additional 17,500,000 shares, to an aggregate of 35,000,000 shares. The 2004 Plan was adopted by the Board of Directors in May 2004 and it became effective on May 18, 2004 upon approval of the stockholders at the 2004 Annual Meeting and originally authorized the issuance of up to 10,000,000 shares of Common Stock. The 2004 Plan was subsequently amended with the approval of stockholders at the 2006 Annual Meeting to increase the number of shares of Common Stock issuable thereunder to 17,500,000 shares.

On April 23, 2008, the Board approved an amendment of the 2004 Plan, subject to stockholder approval, to increase the number of shares of Common Stock authorized for issuance under the 2004 Plan by 17,500,000 shares, to a total of 35,000,000 shares. The Board of Directors adopted this amendment because it believes that:

- additional shares are necessary to attract new employees and executives;
- additional shares are needed to further the goal of retaining and motivating existing personnel; and
- the issuance of options to our employees is an integral component of the Company s compensation policy.

As of April 23, 2008, awards (net of canceled awards) covering an aggregate of 8,917,000 shares of Common Stock had been granted under the 2004 Plan. A total of 8,583,000 shares of Common Stock (plus any shares that might in the future be returned to the 2004 Plan as a result of cancellations or expiration of awards) remained available for future grant under the 2004 Plan.

Assuming that stockholders approve an amendment of the 2004 Plan to increase the number of shares of Common Stock issuable under the 2004 Plan by an additional 17,500,000 shares, to an aggregate of 35,000,000 shares, a total of 26,083,000 shares of Common Stock (plus any shares that might in the future be returned to the 2004 Plan as a result of cancellations or expiration of awards) would remain available for future grant under the 2004 Plan.

Table of Contents

The affirmative vote of a majority of the votes cast at the Annual Meeting is required for approval of this amendment to the 2004 Plan to increase the number of shares of Common Stock issuable under the plan. Brokers do not have discretion to vote on this proposal without your instruction. If you do not instruct your broker how to vote on this proposal, your broker will deliver a non-vote on this proposal. Broker non-votes, if any, will have no effect on the outcome of the vote on this proposal. Abstentions will have the effect of a vote against the proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL (Proposal 3).

Summary of the 2004 Plan

A copy of the 2004 Plan, as currently in effect, is attached to this Proxy Statement as Annex I. The following description of the 2004 Plan is a summary and so is qualified by reference to the complete text of the 2004 Plan.

General

The purpose of the 2004 Plan is to help the Company and its subsidiaries hire and keep directors, consultants, officers and other employees of outstanding ability and to motivate employees to exert their best efforts on behalf of the Company and its subsidiaries. In addition, the Company expects to benefit from the added interest which the awardees will have in the Company s welfare as a result of their ownership or increased ownership of the Company s Common Stock.

Options and other awards authorized under the 2004 Plan include:

- incentive stock options (ISOs) which are intended to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the Code);
- stock options which are non-qualified for federal income tax purposes (NQOs), to which the provisions of the Code pertaining to ISOs do not apply;
- restricted stock awards, which are awards of stock that are subject to forfeiture in the event of premature termination of employment, our failure to meet certain performance objectives, or other conditions;
- stock appreciation rights (SARs), which enable a recipient to profit immediately from the difference between the exercise price of an option and the fair market value of the stock;
- deferred stock awards, which are awards of stock that are not distributed to the awardee until after a specified deferral period; and
- other stock-based awards permitted under the 2004 Plan (including, but not limited to, performance shares and convertible debentures).

Each award described above is referred to in this Proxy Statement as an Award , and all such awards are collectively referred to in this Proxy Statement as Awards and individuals receiving Awards are referred to as Awardees .

The 2004 Plan is not subject to any provisions of the Employee Retirement Income Security Act of 1974, as amended.

Administration

The 2004 Plan is administered by the Compensation Committee (or such other committee established by the Board), which consists of at least two directors, appointed by the Board, who are Non-Employee Directors as defined by the SEC under Rule 16b-3 of the Securities Exchange Act of 1934.

The term of office of the Compensation Committee members is fixed from time to time by the Board of Directors. The Board may from time to time remove members from the Compensation Committee, with or without cause, or add members to the Compensation Committee. Vacancies in the Compensation Committee, however caused, will be filled by the Board.

Table of Contents

Subject to the express terms and conditions of the 2004 Plan, the Compensation Committee has full power to make Awards, to construe or interpret the 2004 Plan, to prescribe, amend and rescind rules and regulations relating to it and to make all other determinations necessary or advisable for its administration. Except as otherwise provided in the 2004 Plan, the Compensation Committee may also determine which persons shall be granted Awards, the nature of the Awards granted, the number of shares subject to Awards and the time at which Awards shall be made. Such determinations are final and binding.

Amount of Stock Available Under the 2004 Plan.

The only class of stock subject to an Award is Common Stock. The maximum number of shares of Common Stock with respect to which Awards may be granted is currently 8,583,000 shares. Assuming that stockholders approve an amendment of the 2004 Plan to increase the number of shares of Common Stock issuable under the 2004 Plan by an additional 17,500,000 shares, to an aggregate of 35,000,000 shares, the maximum number of shares of Common Stock with respect to which Awards may be granted would increase to 26,083,000 shares. However, these numbers are subject to adjustment in the event of a recapitalization, reorganization or similar event. The maximum number of shares of Common Stock with respect to which Awards may be granted to any Awardee in any year under the 2004 Plan is 5,000,000 shares.

Shares may consist, in whole or in part, of authorized and unissued shares or treasury shares. Any shares represented by Awards which are cancelled, forfeited, terminated or expire unexercised will again be available for grants and issuance under the 2004 Plan.

Eligibility.

Persons eligible for Awards under the 2004 Plan are limited to directors, consultants, officers and other key employees of the Company and our subsidiaries who are responsible for the management, growth, profitability and protection of the business of the Company and our subsidiaries (Eligible Persons). The Compensation Committee selects who will receive Awards and the amount and nature of such Awards.

As of April 23, 2008, options over a total of 8,917,000 shares of Common Stock had been granted under the 2004 Plan of which options to purchase 7,147,000 shares were outstanding and options over a further 8,583,000 shares of Common Stock remained available for future grant. Assuming that stockholders approve an amendment of the 2004 Plan to increase the number of shares of Common Stock issuable under the 2004 Plan by an additional 17,500,000 shares, to an aggregate of 35,000,000 shares, the maximum number of shares of Common Stock with respect to which Awards may be granted would increase to 26,083,000 shares. All outstanding options were held by employees and consultants. As of April 28, 2008, the intrinsic value of all shares of Common Stock subject to outstanding options under the 2004 Plan was $nil based on the closing sale price of $0.21 for the Company s Common Stock as reported on The American Stock Exchange Composite Tape on such date.

Adjustments on Changes in Capitalization, Merger or Change of Control

In the event that our outstanding shares of Common Stock are increased, decreased or changed or converted into other securities by reason of merger, reorganization, consolidation, recapitalization, stock dividend, extraordinary cash dividend or other change in our corporate structure affecting the stock, the number of shares that may be delivered under the 2004 Plan and the number and/or the option price of shares subject to outstanding options and any other Awards under the 2004 Plan may be adjusted at the sole discretion of the Compensation Committee to the extent that the Compensation Committee determines to be appropriate; provided, however, that the number of shares subject to any Awards will always be a whole number, and provided further that, in the case of ISOs, no such adjustment will be authorized to the extent that it would constitute a modification as defined in Section 424(h)(3) of the Code or would cause the 2004 Plan to violate Section 422(b)(1) of the Code or any successor provision thereto. The adjusted option price will also be used to determine the amount payable to us upon the exercise of any SARs associated with any option.

Amendment and Termination of the 2004 Plan

The 2004 Plan will expire on May 17, 2014, but the Board of Directors may terminate the 2004 Plan at any time prior to that date and Awards granted prior to such termination may extend beyond such date. Termination of the 2004 Plan will not alter or impair, without the consent of the optionee or grantee, any of the rights or obligations of any Award made under the 2004 Plan.

The Board may from time to time alter, amend, suspend or discontinue the 2004 Plan. However, no such action of the Board may alter the provisions of the 2004 Plan so as to alter any outstanding Awards to the detriment of an Awardee without such Awardee s consent, and no amendment to the 2004 Plan may be made without stockholder approval if such amendment would materially increase the benefits to the Awardees in the 2004 Plan, materially increase the number of shares issuable under the 2004 Plan, reduce below 100% (110% in the case of a 10% owner) of the fair market value on the date of grant the price per share of which any option may be granted, extend the terms of the 2004 Plan or the period during which options may be granted or exercised or materially modify requirements as to eligibility to participate in the 2004 Plan.

Stock Options

Option Price. The Compensation Committee shall determine the option price of all NQOs and all ISOs; provided however, that the option price shall not be less than 100% of the fair market value of the Common Stock on the date the option is granted and provided further that, in the case of an Awardee who owns more than 10% of our issued and outstanding stock on the date of grant, the option price of an ISO shall be at least 110% of the fair market value of the Common Stock on the date the option is granted. The aggregate fair market value of the Common Stock with respect to which an ISO is exercisable for the first time by an optionee during any calendar year shall not exceed $100,000.

Option Term. The Compensation Committee shall determine the expiration date of each Option; provided, however, that no ISO shall be exercisable after the expiration of five years and one day from the date the option was granted, unless the Option term is extended by the Compensation Committee but not to extend beyond ten years, and provided further that ISOs granted to employees who are 10% owners on the date of grant shall expire no later than five years from the date of grant. Options may terminate earlier as provided elsewhere in the 2004 Plan.

Exercisability of Options. Stock options shall be exercisable at such time or times as determined by the Compensation Committee at or subsequent to the date of grant; provided, however, from and after a Change of Control (as defined in the 2004 Plan) all stock options shall become immediately exercisable to the full extent of the Award. Options granted under the 2004 Plan are subject to provisions regarding acceleration of exercise in the event of a Change of Control, including exercise by officers, directors and 10% owners, and termination of employment due to retirement, death, disability, termination without cause and voluntary termination with our consent.

Method of Exercise. Options may be exercised, in whole or in part, by giving us written notice of exercise specifying the optionee s election to purchase shares subject to the options. Upon exercise of Options and payment of the exercise price, we will issue shares out of the amount so authorized under the 2004 Plan. The exercise price of an Option shall be paid for in full (i) with cash (either by certified or bank check), or (ii) at the sole discretion of the Compensation Committee, at the equivalent fair market value of shares of unrestricted Common Stock already owned by the optionee, properly endorsed, or (iii) in the case of NQOs and at the sole discretion of the Compensation Committee, at the equivalent fair market value of restricted Common Stock already owned by the optionee, or deferred stock subject to an Award under our Plans, or (iv) in accordance with other methods determined by the Compensation Committee or the Board. The Compensation Committee may require any person entitled to receive payment in respect of an Award to remit to us prior to such payment, an amount sufficient to satisfy any federal, state or local tax withholding requirements.

Unless the Compensation Committee determines otherwise at the time of grant, during the 60-day period after a Change of Control, and only with respect to Options that are unaccompanied by an SAR, each optionee (other than (i) a member of the Compensation Committee or (ii) an optionee who initiated a Change of Control in a capacity other than as one of our officers or directors) has the right to elect, by giving us written notice, to surrender all or part of the Option to us and to receive in cash (in lieu of exercising the Option) an amount equal to the amount by which the fair market value per share of the Common Stock on the date of exercise exceeds the exercise price per share under the Option multiplied by the number of shares of Common Stock granted under the Option as to which such right is exercised.

However, any officer, director or 10% owner of our capital stock (collectively, an Insider) may only settle such right pursuant to an irrevocable election to settle the right no earlier than six months after the date of such election, provided that the Change of Control transaction was approved by our stockholders (excluding Insider stockholders).

The fair market value of the Common Stock attributable to any such right associated with an ISO is calculated on the same basis of determining the fair market value on the date of exercise of the ISO. The fair market value of the Common Stock attributable to any such right associated with an NQO is the higher of (i) the highest reported sale price of our Common Stock on The American Stock Exchange (or other exchange or market in which our stock is then being traded) for the 60-day period preceding the Change of Control and (ii) the highest per share price paid in any Change of Control transaction.

Restrictions on Transferability. The Compensation Committee, in its absolute discretion, may impose such restrictions on the transferability of the Options granted under the 2004 Plan as it deems appropriate. Any such restrictions must be set forth in the Stock Option Agreement with respect to such Options and may be referred to on the certificates evidencing shares issued pursuant to an Award. ISOs may not be transferred by an optionee other than by will or by laws of descent and distribution.

Effect of Termination of Employment, Death, Retirement or Permanent Disability. Except as hereinafter provided, every Option granted pursuant to the 2004 Plan shall terminate on the earlier to occur of (i) the fixed expiration date set forth in the Option Agreement; and (ii) (a) if an employee ceases to be employed by us by reason of retirement or permanent disability, then 12 months after such cessation of employment, to the extent that the employee was entitled to exercise it on the date of his cessation of employment, or (b) if an employee dies while employed by us or within 18 months of his termination of employment by reason of retirement or permanent disability, then by his legal representative at any time within 18 months after his death in the event the optionee died while employed by us or within 18 months of his death in the event the optionee died after retirement or permanent disability, or (c) a date determined by the Compensation Committee. After the date of such termination, such Option exercises may only be made for the full number of shares subject to the Option.

If an optionee s relationship or employment by us terminates for any reason other than death, permanent disability or retirement, every Option granted to the optionee pursuant to the 2004 Plan shall terminate effective as of the termination date. If such employment is terminated by our action (other than for reason of willful violation by the optionee of our rules), or by voluntary resignation of the optionee, in either case within six months following a Change of Control, Options held by such optionee may be exercised in full until the earlier of their expiration in accordance with their terms and three months and one day from such termination, or at the discretion of the Compensation Committee. Transfers of employees among our affiliates and authorized leaves of absence are not deemed terminations of employment.

If an optionee holding ISOs does not exercise the Option within three months after termination of such optionee s employment (one year if such optionee s employment was terminated due to disability) the Option shall cease to be an ISO and shall be treated as an NQO for federal income tax purposes. In the event that an optionee s employment is terminated by reason of such optionee s death any ISOs shall continue to be treated as ISOs regardless of when they are exercised.

Option Buyout or Repricing. The Compensation Committee may at any time offer to repurchase an Option or to reprice an Option (other than outstanding ISOs and subject to the receipt of shareholder approval if required under the

2004 Plan, stock exchange requirements or under Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder), based on such terms and conditions as the Compensation Committee shall establish at the time of such offer.

Table of Contents

Stock Appreciation Rights

Grant and Exercise. SARs enable a recipient to profit immediately from the disparity between the exercise price of the option and the fair market value of the stock. SARs may be granted as part of an Award (i) in the case of an NQO, at the time of the grant or thereafter, and (ii) in the case of an ISO, at the time of the grant only. SARs generally terminate upon the exercise of the related option and, unless exercised in connection with the death or permanent disability of the participant, are subject to the exercise conditions imposed on Insiders by Section 16 of the Securities Exchange Act of 1934, as amended. SARs granted in connection with ISOs may be exercised only when the market price of the stock subject to the ISO exceeds the option price of the ISO.

Method of Exercise. Upon exercise of the SAR, the optionee shall receive in cash or stock, as determined by the Compensation Committee, the difference between the fair market value of the stock at the time of exercise and the exercise price of the option, multiplied by the number of shares in respect of which the SAR has been exercised. However, for sixty days following a Change of Control, an SAR unaccompanied by an ISO shall be valued at the higher of (a) the highest reported sales price on The American Stock Exchange (or in such other market as our stock may then be traded) and (b) the highest price paid per share of our stock in such Change of Control transaction.

Restricted Stock, Deferred Stock and Other Stock Based Awards

Grant. The Compensation Committee may, at its discretion, award to a recipient either restricted stock, deferred stock or other stock based awards (collectively, the Stock Awards). The Stock Awards will be evidenced by an agreement and provide that the stock subject to the Stock Award is not transferable for a specified period, or, in the case of an Award of deferred stock, not issuable for a specified period. In the case of a deferred stock Award, the Compensation Committee may require a minimum payment at the end of the restrictive period or completion of a specified performance period and, in the event of a Change of Control, Stock Awards will be immediately issued to the recipient. Each recipient of a Stock Award will be a stockholder and have all the rights of a stockholder with respect to such shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such shares. Subject to the provisions of the 2004 Plan and each agreement, each recipient of the Stock Award will be entitled to receive currently or on a deferred basis, interest or dividends, or equivalents thereof, with respect to such Award and the Compensation Committee may provide that such amounts shall be deemed to be reinvested in additional stock or otherwise reinvested. Any stock based Award shall be issued for no cash consideration and any underlying securities of such Award shall be priced at no less than 50% of the fair market value of the stock on the date of grant.

If the recipient of a Stock Award ceases to be an employee for any reason, then the Stock Award is subject to forfeiture, except as provided in the particular agreement and except as such forfeiture may be waived by the Compensation Committee when it, at its discretion, determines that such waiver is in our best interests.

In the event of an Awardee s retirement, permanent disability or death, or in cases of special circumstances, the Compensation Committee may waive any or all of the remaining restrictions and limitations imposed under the 2004 Plan with respect to any Stock Awards.

Restrictions on Transferability. Shares of restricted stock and deferred stock Awards may not be sold, exchanged, transferred, pledged, hypothecated, or otherwise disposed of until such time as the stated restrictions, or deferral period, as the case may be, lapse. The Compensation Committee, at its absolute discretion, may impose such restrictions on the transferability of the Stock Awards granted in the 2004 Plan as it deems appropriate. Any such restrictions shall be set forth in the Stock Option Agreement with respect to such Stock Awards and may be referred to on the certificates evidencing shares issued pursuant to any such Stock Award. Shares of restricted stock will be evidenced by a certificate that bears a restrictive legend.

U.S. Federal Income Tax Consequences of the 2004 Plan

The following discussion is a summary of the U.S. Federal income tax consequences to recipients of Awards who are citizens or residents of the U.S. or who are granted Awards with respect to the performance of services in the U.S. and to us with respect to Awards granted under the 2004 Plan. The 2004 Plan is not qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended.

Table of Contents

Incentive Stock Options (ISOs). No income is generally recognized by an optionee when an ISO is granted or exercised. If the stock obtained upon exercise of an ISO is sold more than one year after exercise and two years after grant, the difference between the option price and the amount realized on the sale will be treated as long-term capital gain. We are not entitled to a deduction as a result of the grant or exercise of an ISO or the sale of the stock acquired upon exercise thereof if the stock is held by the optionee for the requisite periods.

If, however, the stock acquired upon exercise of an ISO is sold less than one year after exercise or less than two years after grant, the lesser of (i) the difference between the fair market value on the date of exercise and the option price or (ii) the difference between the amount realized on the sale and the option price will be treated as ordinary income, and we will be entitled to a corresponding deduction. The excess of the amount realized on the sale over the fair market value on the date of exercise, if any, will be treated as long-term or short-term capital gain, depending on the length of time the stock is held.

The excess of the fair market value of the stock over the option price on the date of exercise of an ISO will constitute an adjustment for alternative minimum tax purposes which may result in the optionee being subject to the alternative minimum tax.

Nonqualified Stock Options (NQOs). No income is recognized by an optionee when an NQO is granted. Except as described below, upon exercise of an NQO an optionee is treated as having received ordinary income at the time of exercise in the amount equal to the difference between the option price paid and the then fair market value of the Common Stock acquired. We will be required to withhold tax thereon and will be entitled to a deduction at the same time and in an amount corresponding to such difference. The optionee s basis in the Common Stock acquired upon exercise of an NQO will be equal to the option price plus the amount of ordinary income recognized, and any gain or loss thereafter recognized upon disposition of the Common Stock is generally treated as capital gain or loss.

$100,000 Exercise Limitation for ISOs. If the aggregate fair market value of stock (determined at the date of grant) with respect to which ISOs granted after December 31, 1986 become exercisable, whether by passing of an anniversary date, acceleration or otherwise, during any one calendar year exceeds $100,000, the excess will be treated for tax purposes as NQOs, with options being taken into account therefor in the order of grant.

Payment with Common Stock. The 2004 Plan allows an optionee to deliver Common Stock that such optionee already owns in payment of the option price. For any shares of Common Stock so exchanged, an amount equal to the fair market value thereof on the date tendered will be credited against the option price. In general, an optionee will not recognize gain with respect to any shares delivered to us in exchange for new shares acquired in the exercise of an Option.

In the event Common Stock is used to pay the option price for an NQO, gain or loss will not be recognized in connection with such exchange to the extent that the number of shares of stock received on exercise does not exceed the number of shares of stock surrendered. The optionee s basis in the new shares will be equal to the basis of the stock surrendered and the holding period thereof will include the holding period of the shares exchanged. The fair market value of any additional shares received upon exercise of an NQO in exchange for stock (less any cash or other property paid in connection with the exercise) will constitute compensation to the optionee taxable as ordinary income. The optionee s basis in these additional shares will be equal to the amount of compensation included in income plus any cash or value of other property paid upon exercise, and the holding period therefor will begin on the date of the exchange.

In the event Common Stock is used to pay the option price for an ISO, gain or loss normally will not be recognized in connection with such exchange. To the extent that the number of shares of stock received on exercise does not exceed the number of shares surrendered, proposed Treasury Regulations provide that the optionee s basis in these shares will be equal to the basis of the stock surrendered and, except as provided below, has the same holding period as the stock surrendered. To the extent the optionee receives a number of shares in excess of the number of shares surrendered, the optionee s basis in such additional shares will be zero (plus any gain recognized and any cash paid in connection with the exercise) and the holding period for such additional shares will begin on the date of such exchange.

Table of Contents

If Common Stock acquired upon the exercise of an ISO is delivered in payment of the option price upon the exercise of a second ISO before the stock was held for the requisite holding period, then the stock so delivered will not be eligible for tax-free treatment in the exchange, but instead the optionee generally will be required to recognize ordinary income at the time such stock is delivered as described above under Incentive Stock Options.

There are special complex rules relating to the allocation of basis and the holding period of ISO stock acquired by payment with previously held Common Stock. For example, the disposition of such shares prior to the end of the required holding period may result in a greater portion of the proceeds of disposition being treated as ordinary compensation income than might otherwise be expected.

Stock Appreciation Rights (SARs). No tax is imposed on an optionee pursuant to a grant of an SAR. Upon exercise of an SAR, the optionee will recognize ordinary income equal to the amount of cash he receives, and we will be entitled to a compensation deduction. SAR payments are wages subject to withholding at the regular withholding rates applicable to the optionee s salary income. For a salaried optionee, the amount received upon settlement of an SAR is a supplemental wage payment subject to a flat 25% withholding obligation (35% with respect to supplemental wage payments in excess of $1,000,000).

Temporary and Proposed Treasury Regulations provide that an alternative right to receive a taxable cash payment for the cancellation or surrender of an ISO does not disqualify the Option as an ISO if the exercise of the right has the same economic and tax consequences as the exercise of the Option followed by the immediate sale of the underlying shares. Accordingly, the grant of an SAR linked to an ISO under the 2004 Plan will not cause the ISO to lose its preferential tax treatment because the SAR will result in the same economic and income tax consequences to the optionee as if the optionee had exercised the ISO and sold the stock received upon exercising the ISO.

Restricted Stock. Restricted Stock awarded to an Awardee may be subject to any number of restrictions (including deferred vesting, limitations on transfer, and forfeitability) imposed by the Compensation Committee. In general, the receipt of Restricted Stock will not result in the recognition of income by an Awardee until such time as the shares are either not forfeitable or are freely transferable. Upon the lapse of such restrictions, the Awardee will be required to include as ordinary income the difference between the amount paid for the Restricted Stock, if any, and the fair market value of such stock on the date the restrictions lapse and we will be entitled to a corresponding deduction. In addition, any dividends paid with respect to the Restricted Stock prior to the lapse of the restrictions will be treated as compensation income by the Awardee and will be deductible by us. Awardees receiving Restricted Stock Awards may elect to include the value of such stock (less any amounts paid for such stock) as ordinary income at the time the Award is made. Awardees making this election would treat any gain or loss realized on a sale of the Restricted Stock as capital gain or loss, but would not be entitled to any loss deduction if they forfeited the Restricted Stock pursuant to the restrictions imposed by the Compensation Committee.

Deferred Stock. Deferred Stock awarded to an Awardee will not be delivered to the Awardee until after a specified period of time (the Deferral Period). Upon delivery of the shares after the Deferral Period, the Awardee may be required to make a minimum payment for the shares and/or the shares may be subject to restrictions similar to those imposed on Restricted Stock Awards. In general, an Awardee will be required to include the Deferred Stock Award as compensation income (and we will receive a deduction) at the earliest time such shares have been delivered and are freely transferable or are no longer subject to a substantial risk of forfeiture. The amount of compensation income (and our deduction) will be the difference between the amount paid for the Deferred Stock, if any, and the fair market value of the Deferred Stock at the time such restrictions lapse. Any dividends paid with respect to the Deferred Stock prior to the time that the Awardee has included such stock as compensation income will be treated as additional compensation income and will be deductible by us. Awardees receiving a Deferred Stock Award may elect to include the value of such stock (less any amount paid for such stock) as compensation at the time the Award is made. Awardees making this election would treat any gain or loss realized on a sale of the Deferred Stock as capital gain or loss, but would not be entitled to any loss deduction if they forfeited the Deferred Stock pursuant to the restrictions imposed by the Compensation Committee.

Other Stock Based Awards. The Compensation Committee may issue other stock based Awards, including performance shares and convertible debentures. These Awards may be subject to such restrictions as may be imposed by the Compensation Committee. In general, Awardees receiving such Awards will be required to include the fair market value of the Award in income as additional compensation on the date that the Award becomes freely transferable or is no longer subject to a substantial risk of forfeiture, and we will be entitled to a corresponding deduction.

In view of the complexity of the tax aspects of transactions involving the grant and exercise of ISOs, NQOs, and SARs, and the receipt and disposition of shares of Common Stock in connection with those and other Awards under the 2004 Plan, and because the impact of taxes will vary depending on individual circumstances, each Awardee receiving an Award under the 2004 Plan should consult their own tax advisor to determine the tax consequences in such Awardee s particular circumstances.

Cap on Company Deductions for Certain Compensation. Under Section 162(m) of the Code, certain compensation payments in excess of $1 million are subject to a cap on deductibility by the Company. The limitation on deductibility applies with respect to that portion of a compensation payment for a taxable year in excess of $1 million to either the chief executive officer of the corporation or any one of the other four highest paid executives. Certain performance-based compensation is not subject to the cap on deductibility. Although certain stock-based compensation can qualify for this performance-based exception, Awards granted under the 2004 Plan do not qualify.

Section 409A. Under section 409A of the Code, deferred compensation earned by employees subject to tax in the U.S. that is not in compliance with section 409A is subject to immediate tax at the regular tax rates applicable to ordinary income and to an additional tax equal to 20 percent of the amount of income required to be included under section 409A. Section 409A imposes a number of limitations on the ability to pay deferred compensation, including prohibiting acceleration of the deferred compensation, limiting the events that may trigger a payment of deferred compensation, limiting the ability to make subsequent deferrals of compensation that been deferred, and requiring that certain payments of deferred compensation to specified employees be delayed for at least six month after termination of employment.

The 2004 Plan has not been amended to comply with section 409A. Accordingly, certain types of Awards that constitute deferred compensation subject to section 409A will not be eligible for deferral and will be immediately included as income by any employees who are subject to tax in the U.S. and will be subject to the additional 20% tax described above. Currently, the Company has no employees who are subject to tax in the U.S. Accordingly, section 409A should have no effect on Awards made under the 2004 Plan.

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Management of the Company

The members of the Board of Directors and the Executive Officers of the Company are identified below:

Name	Age	Positions Held
Vincent McDonnell	49	Chairman of the Board, President, Chief Executive Officer, Chief Operating Officer, Chief Commercial Officer and Director
Jeffrey Wilkins	45	Chief Financial Officer, Corporate Secretary and Director
Michael Ayre(1)(2)	51	Director
Russ Hammond(1)(2)	66	Director
Anthony Perry(1)	72	Director

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

Executive Officers and Directors

Vincent McDonnell, a resident of the United Kingdom, was elected a Director of the Company on May 2, 2003. He served the Company as Chief Financial Officer from September 23, 2002 to May 6, 2005; since May 6, 2005 he

Table of Contents

has held the position of Chief Operating Officer; since August 1, 2006 he has held the position of President, and since February 7, 2008 he has held the position of Chairman of the Board. Prior thereto, he served the Company as Chief Commercial Officer from April 2001 and Commercial Manager from December 2000. Prior to joining the Company, he was an independent oil and gas consultant from May 1999 until October 2000. From 1994 until April 1999, Mr. McDonnell served as Commercial Manager of JKX Oil & Gas plc working in countries of the former Soviet Union including Georgia. Prior to 1994, Mr. McDonnell worked in various business, commercial and technical roles with a number of companies, including Mobil North Sea Limited and Britoil plc. He holds a B.Sc (Hons.) degree in Geology, a M.Sc. degree in Geophysics and an MBA.

Jeffrey Wilkins, a resident of the United Kingdom, was appointed Chief Financial Officer on August 1, 2006. On September 24, 2007, he was elected a Director and since February 11, 2008 has held the position of Corporate Secretary. Mr. Wilkins had served as the Company s Financial Controller from April 2001 until his appointment as the Company s Chief Financial Officer. Prior to his appointment as the Company s Financial Controller, he held various European finance positions for Fisher-Rosemount, part of Emerson Electric Company, between 1995 and 1999 and then up to joining the Company was European Financial Accountant for Dialog, a business of The Thomson Corporation. Mr. Wilkins is a Chartered Management Accountant with a joint degree in Economics and Politics from the University of Bath.

Michael Ayre, a resident of Guernsey, was elected a Director of the Company on March 5, 2004. He is currently Managing Director of Mees Pierson Reads, a trust management and financial advisory company. He was previously employed from 1983 to 1987 in the London office of Touche Ross & Co (now Deloitte), and the Guernsey office from 1981 to 1983 of Peat Marwick Mitchell (now KPMG). Mr. Ayre is a member of the Chartered Association of Certified Accountants and the Chartered Institute of Taxation. He was formerly a non-employee director of Woolwich Guernsey Limited and is currently a non-employee director of the Guernsey subsidiaries of Unigestion, a Swiss fund management group and also CPC Group Limited, a privately owned Guernsey Company, engaged in property development where he is the non-employee Chairman.

Russ Hammond, a resident of the United Kingdom, was elected a Director of the Company on July 15, 1998. He has also served as a Director of the Company s subsidiary, CanArgo Oil & Gas Inc., since June 1997. Although retired, Mr. Hammond has over the past five years been an investment advisor to Provincial Securities Limited, a private investment company. Mr. Hammond has been Chairman of Terrenex Acquisition Corporation, an oil and gas and joint venture company, since 1992 and a Non Executive Director of Questerre Energy Inc., an oil and gas exploration and production company, since 2000. In June 2003, Mr. Hammond was awarded with the Order of Honour for services to the Georgian hydrocarbon extraction industry.

Anthony Perry, a resident of the United Kingdom, was elected a Director of the Company on April 1, 2008. He is a Chartered Engineer and a Distinguished Member of the Society of Petroleum Engineers (SPE) and is a Board Member and former Chairman of the London section of the SPE. Mr. Perry began his career as a Petroleum Engineer with Ultramar and a subsidiary of Gulf Oil Company in Venezuela. From 1970 to 1978, he worked for a subsidiary of British Petroleum in Abu Dhabi, ultimately as Chief Petroleum Engineer. During the period 1970 to 1983, he held the position of Manager of Petroleum Engineering at BP Petroleum Development (UK) Ltd. which was a period of major expansion for BP in the North Sea. Later he went on to become Manager of Operations at Texas Eastern North Sea Inc. before taking up senior management positions at Mobil North Sea Limited as commercial co-ordinator, joint venture co-ordinator and secretary of the Mobil North Sea management council. From 2000 to 2005, Mr. Perry was Chairman of Oilfield Production Consultants (OPC) Limited, a petroleum and reservoir engineering consultancy. Mr. Perry has a B.Sc. degree in Geology from Bristol University and a Diploma of Imperial College London in Petroleum Reservoir Engineering.

The current term of office of all of the Company s directors expires at the Annual Meeting. A majority of the independent directors has nominated all five persons to be elected directors at the Annual Meeting to hold office until the annual meeting of stockholders in 2009 and until their successors are elected and qualified. All directors will hold office until the Annual Meeting of Stockholders at which their terms expire and the election and qualification of their successors.

There are no family relationships among any of the Company s directors or executive officers.

Table of Contents

Director Nomination

General. The Board does not have a nominating committee. The functions of the nominating committee are performed by a majority of the independent directors who consider candidates for Board membership suggested by Board members, as well as management and stockholders and make recommendations for the Board s selection. The Board may also retain a third-party executive search firm from time to time if it believes such engagement is advisable in order to identify suitable candidates.

Stockholder Nominees. A stockholder who wishes to recommend a prospective nominee for the Board should notify any independent director in writing with whatever supporting material the stockholder considers appropriate, including (a) all information relating to such nominee that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person s written consent to being named in the Company s proxy statement for its annual meeting of stockholders as a nominee and to serving as a director (if elected)); (b) the names and addresses of the stockholders making the nomination and the number of shares of the Company s Common Stock which are owned beneficially and of record by such stockholders; and (c) appropriate biographical information and a statement as to the qualification of the nominee. A stockholder nomination should be submitted in the timeframe described in the Bylaws of the Company.

Process for Identifying and Evaluating Nominees. Once the independent directors have identified a prospective nominee, the Board makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on the information provided to the Board with the recommendation of the prospective candidate, as well as the Board s own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or to expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors described below. If the Board determines, in consultation with the independent directors and other Board members as appropriate, that additional consideration is warranted, it may request a third-party search firm to gather additional information about the prospective nominee s background and experience and to report its findings to the Board. The Board then evaluates the prospective nominee against the following standards and qualifications, including:

- the extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the Board;

- the prospective nominee s ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties, including the prospective nominee s service on other public company boards;

- the prospective nominee s standards of integrity, commitment and independence of thought and judgment; and

- the extent to which the prospective nominee helps the Board reflect the diversity of the Company s stockholders, employees, customers and communities in which the Company operates.

The Board also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee and technical expertise and the evaluations of other prospective nominees. In connection with this evaluation, the Board determines whether to interview the prospective nominee, and will conduct an interview, if warranted, with one or more members of the Board, and others, including members of management, as appropriate. After completing this evaluation and interview, the Board determines the nominees after considering the recommendations and views of the directors and others as appropriate. The Board has adopted resolutions addressing the nominations process and such related matters as may be required under U.S. federal securities laws and the rules of The American Stock Exchange, Inc. (the AMEX) and the Oslo Stock Exchange. A copy of the resolutions is available on the Company s website (www.canargo.com).

To date, the Company has never received a proposal from a stockholder to nominate a director. Although the Company has not adopted a formal policy with respect to stockholder nominees, the directors expect that the evaluation process for a stockholder nominee would be similar to the process outlined above.

Table of Contents

Process for Determining which Directors are Considered Independent. On April 21, 2004, the Company s Common Stock began trading on the AMEX. In connection with its Common Stock listing, the Company became subject to the listing standards adopted by the AMEX. The full text of the AMEX requirements can be found on its website (*www.amex.com*).

Pursuant to AMEX and Securities and Exchange Commission (SEC) requirements, the Board undertook its annual review of director independence in April 2008. During this review, the Board considered transactions and relationships between each director or any member of his immediate family and the Company and its subsidiaries and affiliates, including those reported under *Certain Relationships and Related Transactions* below. The Board also examined transactions and relationships between directors or their affiliates and members of the Company s senior management or their affiliates. As provided in the AMEX and SEC requirements, the purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

As a result of this review, the Board affirmatively determined that, other than Vincent McDonnell and Jeffrey Wilkins, all of the directors nominated for election at the Annual Meeting are independent of the Company and its management under the standards set forth in the requirements of the AMEX and the SEC. In addition, as further required by the AMEX listing standards, the Board has made an affirmative determination as to each independent director that no material relationships exist between any non-employee director and the Company which, in the opinion of the Board, would interfere with the exercise of their independent judgment. Vincent McDonnell and Jeffrey Wilkins are considered inside directors because of their role as senior executives of the Company. We provide additional information regarding Mr. Hammond under *Certain Relationships and Related Transactions* below.

Board Nominees for the 2008 Annual Meeting. Each of the nominees listed in this Proxy Statement are current directors standing for re-election.

Communications with Directors

Stockholders and other parties interested in communicating directly with the non-employee directors as a group may do so by writing to: Michael Ayre c/o Corporate Secretary, CanArgo Energy Corporation, P.O. Box 291, St. Peter Port, Guernsey, GY1 3RR, British Isles in an envelope marked Confidential . The Corporate Secretary of the Company will promptly forward to Mr. Ayre all such correspondence. In addition, if you wish to communicate generally with the Board you may do so by writing to: Corporate Secretary, CanArgo Energy Corporation, P.O. Box 291, St. Peter Port, Guernsey, GY1 3RR, British Isles. The Corporate Secretary of the Company reviews all such non-confidential correspondence and regularly forwards to the Board a summary of all correspondence as well as copies of all correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the Board or its Committees or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of any such non-confidential correspondence.

Any stockholder may submit at any time a good faith complaint regarding any questionable accounting, internal controls or auditing matters concerning the Company. All such complaints are in the first instance reviewed by the Audit Committee and if necessary forwarded to the Company s accounting staff and handled in accordance with procedures established by the Audit Committee with respect to such matters. Confidential, anonymous reports may be made by writing to the Chair of the Audit Committee, Michael Ayre, c/o P.O. Box 119, Martello Court, Admiral Park, St. Peter Port, Guernsey, GY1 3HB, British Isles, in an envelope marked Confidential .

The Company has a policy of encouraging all directors to attend the annual stockholder meetings.

The Company operates a whistleblowing policy for its employees allowing them to submit at any time a good faith complaint regarding any questionable accounting, internal controls or auditing matters concerning the Company without fear of dismissal or retaliation of any kind.

Table of Contents

Director Compensation

The Company uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on the Board. In setting director compensation, the Company considers the significant amount of time that Directors expend in fulfilling their duties to the Company as well as the skill-level required by the Company of members of the Board.

Cash Compensation Paid to Board Members

In 2007 the Company paid directors fees to the Chairman and non-employee director (in UK Pounds Sterling) on an adjusted monthly basis at a rate of $149,798 per year for 2 months and $119,838 for 3 months. The Company paid all other non-employee directors (in UK Pounds Sterling) on an adjusted quarterly basis at a rate of $99,865 per year plus $1,997 for each meeting of the Audit Committee that they attend (using an exchange rate of £1 = $1.9973 as at December 31, 2007 (as quoted on www.oanda.com). The Company also reimburses ordinary out-of-pocket expenses for attending Board and Committee meetings. Directors who are also employees of the Company receive no additional compensation for service as a director. The Company does not provide retirement benefits to directors under any current program.

Director Summary Compensation Table

The following table shows the compensation paid to all persons who were non-employee directors, including their respective affiliates, during the fiscal year ended December 31, 2007:

(a) Name	(b) Fees Earned or Paid in Cash ($)	(c) Option Awards ($)	(d) All Other Compensation ($)	(e) Total ($)
David Robson(1)	54,926		5,590	60,516
Nils Trulsvik(2)	80,891			80,891
Russ Hammond	107,854			107,854
Michael Ayre	107,854			107,854

(1) Effective June 24, 2007 Dr. Robson stepped down as Chief Executive Officer of the Company and became Chairman and non-employee member of the Board for the remainder of the year. Dr. Robson subsequently resigned from the Board on February 7, 2008.

(2) Effective September 24, 2007 Mr. Trulsvik resigned from the Board.

Non-Employee Director Service Agreements

In settlement of the notice provisions under his Service Agreement the Company paid Dr. Robson £30,000 and extended the expiration date of his options to purchase 1,800,000 shares of Common Stock to December 31, 2008.

Compensation Committee Interlocks and Insider Participation

During 2007, the Company s Compensation Committee consisted of Russ Hammond, and, until September 24, 2007 when he resigned from the Board, Nils Trulsvik. On April 1, 2008, Michael Ayre was appointed a member of the Compensation Committee. Both Mr. Hammond and Mr. Ayre are non-employee independent directors. See the Section entitled BOARD MEETINGS AND COMMITTEES *Compensation Committee* below.

Code of Business Conduct and Ethics

The Company has adopted a written *Code of Business Conduct and Ethics*, which sets forth the Company s standards of expected business conduct and which is applicable to all employees, including the Chief Executive Officer, the principal Financial Officer, principal accounting officer or controller, and persons performing similar functions (each a Principal Officer), as well as the directors of the Company. This *Code of Business Conduct and Ethics* is filed as Exhibit 14.1 to the Company s Annual Report on Form 10-K for the fiscal year ended 2004, filed with the Securities and Exchange Commission. A copy of the Company s *Code of Business Conduct and Ethics* is available on the Company s website (www.canargo.com). The Company intends to post amendments to or waivers from its *Code of Business Conduct and Ethics* (to the extent applicable to or affecting any Principal Officer or director) at this location on its website.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Russ Hammond, a non-employee director of the Company, is also an Investment Advisor to Provincial Securities Limited who became a minority shareholder in the Norio and North Kumisi (Block XIc) Production Sharing Agreement through a farm-in agreement to the Norio MK72 well. On September 4, 2003 the Company concluded a deal to purchase Provincial Securities Limited s minority interest in CanArgo Norio Ltd. by a share swap for shares in the Company. The purchase was achieved by issuing 6 million restricted shares of Common Stock in the Company to the minority interest holders in CanArgo Norio Ltd. Of the interests in CanArgo Norio Ltd., Provincial Securities Limited owned 4% and received 2,234,719 shares of the Company s Common Stock.

Provincial Securities Limited also had an interest in Tethys Petroleum Limited (formerly named Tethys Petroleum Investments Limited) (Tethys), a Guernsey company, established to develop potential projects in Kazakhstan, in which the Company had a minority interest until June 2005 when the Company acquired the remaining 55% interest in Tethys which it did not own. Pursuant to this transaction, Provincial Securities Limited received 5,500,000 shares of the Company s Common Stock in exchange for its interest in Tethys. Mr. Hammond did not receive any compensation in connection with these transactions and disclaims any beneficial ownership of Provincial Securities Limited or of any shares of the Company s Common Stock owned by Provincial Securities Limited. In August 2007, the Company disposed of its interest in Tethys. Mr. Julian Hammond, Mr. Hammond s son, was employed as a Vice-President of Tethys, at an annual salary of £96,000 Pounds Sterling (£) and was awarded an aggregate of 190,000 options to purchase shares of Common Stock under the Company s Stock Option Plans at a weighted average exercise price of $0.82. Mr. Hammond disclaims ownership of his son s shares.

Transactions with affiliates or other related parties including management of affiliates are to be undertaken on the same basis as third party arms-length transactions. Transactions with affiliates and other related parties are reviewed and voted on by the Board with any potential related parties absent from such discussions or votes.

The Company is in the process of reviewing its policy with respect to the review, approval or ratification of related person transactions and to date a formal policy has not been adopted by the Board. However, the Company follows the rules adopted by the AMEX in respect of related party transactions and is annually required to review related person transactions. Further, on an annual basis, each Director and executive officer is obligated to complete a Director and Officer Questionnaire which requires disclosure of any transaction with the Company in which the Director and executive officer, or any member of his or her immediate family, have a direct or indirect material interest.

BOARD MEETINGS AND COMMITTEES

During fiscal 2007, the Company s Board of Directors met eleven times either at face to face board meetings or by telephone conference call. The Board of Directors has standing Audit and Compensation Committees. The Audit Committee met four times, and the Compensation Committee met four times during fiscal 2007. Each member of the Board attended 75% or more of the Board meetings, and each member of the Board who served on either the Audit or Compensation Committee attended at least 75% of the Committee meetings.

Audit Committee. The Audit Committee is currently comprised of Messrs. Ayre, Hammond and Perry. All of the members of the Audit Committee are independent within the meaning of SEC regulations and the listing standards of the AMEX. Mr. Ayre, the Chairman of the Committee, is qualified as an audit committee financial expert within the meaning of SEC and AMEX regulations and the Board has determined, in the exercise of its business judgment, that he has accounting and related financial management expertise within the meaning of the listing standards of the AMEX. The Audit Committee, which operates under a charter, among other responsibilities, recommends the hiring of our independent auditors, reviews the functions of management and our independent

Table of Contents

auditors pertaining to our audits and the preparation of our financial statements and performs such other related duties and functions as are deemed appropriate by the Audit Committee.

Compensation Committee. The Compensation Committee currently consists of Messrs. Hammond (Chairman) and Ayre. The Board has determined that all members of the Compensation Committee are independent directors under the AMEX Listing Standards and the SEC Regulations. The Compensation Committee administers the Company s benefit plans, reviews and administers all compensation arrangements for executive officers, and establishes and reviews general policies relating to the compensation and benefits of our officers and employees.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The purpose of this Compensation Discussion and Analysis is to provide information about the Company s philosophy, objectives and processes regarding compensation for the named executive officers of the Company. It explains how the Compensation Committee makes executive compensation decisions and the reasoning behind the decisions that are made. For fiscal year 2007, we had the following four named executive officers:

Vincent McDonnell President and Chief Executive Officer effective June 27, 2007 and Chief Operating Officer and Chief Commercial Officer and Director;

David Robson Chairman and former Chief Executive Officer who stepped down as Chief Executive Officer on June 27, 2007 and former Director. Dr. Robson became Chairman and a non-employee Director effective June 27, 2007;

Jeffrey Wilkins Chief Financial Officer and Director effective September 24, 2007; and

Elizabeth Landles Corporate Secretary and former Executive Vice President who stepped down as Executive Vice President effective September 22, 2007.

Effective February 11, 2008, Elizabeth Landles resigned from her position as Corporate Secretary and Jeffrey Wilkins was simultaneously appointed Corporate Secretary. The Company therefore currently has two named executive officers, Mr. McDonnell and Mr. Wilkins.

Executive Summary

The following provides a brief overview of the more detailed disclosure set forth in this Compensation Discussion and Analysis.

The objective of our compensation program is to align the interests of our executives with those of our shareholders, to motivate executives to achieve business goals set by the Company, to pay for performance and to recruit, retain, and motivate talented executives.

All compensation decisions regarding our chief executive officer are made by the Board after the Board first considers the recommendation of the Compensation Committee. All compensation decisions for our other named executive officers are made by the Compensation Committee.

The Compensation Committee reviews peer group data as part of its process in determining compensation recommendations for the named executive officers.

The Compensation Committee applies a degree of discretion as part of its process in determining compensation recommendations.

The Company provides our executive officers with the following types of compensation: base salary, long-term incentives and other personal benefits.

The market price for our Common Stock decreased significantly during fiscal year 2007. This negatively impacted the value of our executives accumulated equity-based incentives during fiscal year 2007.

Each of our named executive officers has an employment service agreement or provided services under a management services agreement.

Compensation Committee

The Compensation Committee had two members up to September 24, 2007, when one member resigned, and one member thereafter. The Compensation Committee met four times during fiscal year 2007. The Compensation Committee is comprised solely of non-employee Directors, all of whom the Board has determined are independent pursuant to AMEX rules. A charter for the Compensation Committee has been compiled although this charter is currently subject to internal review and has not been formally adopted by the Board in the last three fiscal years.

The Compensation Committee is responsible for setting and administering policies that govern the Company s executive compensation programs, including stock compensation plans, although these policies are in the process of internal review and have not been formally adopted by the Board. The Compensation Committee s responsibilities include, among other duties, the responsibility to:

establish the base salary, incentive compensation and any other compensation for the Company s elected and appointed executive officers;

exercise oversight with respect to and to supervise the compensation scheme for the other employees of the company;

administer and grant awards under any stock option plan adopted by the Board;

administer and grant awards under the Corporation s securities compensation plan adopted August 16, 1995 by a predecessor by merger to this Corporation;

recommend to the Board any additional compensation, retirement or other employee benefit plan; and

perform other functions or duties deemed appropriate by the Board.

Compensation decisions for all four named executive officers of the Company, which included the Chairman of the Board and Chief Executive Officer up until June 27, 2007 and the Chief Executive Officer thereafter, are made by the Compensation Committee.

The agenda for meetings of the Committee is determined by the Chairman of the Compensation Committee with the assistance of the Chairman of the Board and Chief Executive Officer up until June 27, 2007 and the Chief Executive Officer thereafter. Compensation Committee meetings were regularly attended by the Chairman of the Board and Chief Executive Officer up to June 27, 2007 and the Chief Executive Officer thereafter. The Compensation Committee s Chairman reports the Committee s recommendations on executive compensation to the Board. The Chairman of the Board and Chief Executive Officer up to June 27, 2007 and the Chief Executive Officer thereafter may be delegated authority to fulfill certain administrative duties regarding the compensation programs. The Compensation Committee, under its proposed charter, has authority to retain, approve fees for and terminate advisors, consultants and agents as it deems necessary to assist in the fulfillment of its responsibilities although during fiscal year 2007 it did not seek external assistance.

Role of Executive Officers in Compensation Decisions

The Compensation Committee makes all compensation decisions for all executive officers of the Company and approves recommendations regarding both equity and non-equity compensation. The Chairman of the Board and Chief Executive Officer up to June 27, 2007 and the Chief Executive Officer thereafter regularly attends meetings of the Compensation Committee. The Chairman of the Board and Chief Executive Officer up to June 27, 2007 and the Chief Executive Officer thereafter annually reviews the performance of each executive officer (other than the Chairman of Board and Chief Executive Officer up to June 27, 2007 and the Chief Executive Officer thereafter whose performance is reviewed by the Committee). The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Committee. The Committee can exercise its discretion in adopting or modifying any recommendations or awards to executive officers.

Table of Contents

Employment Agreements with the Named Executive Officers

We have entered into written employment agreements with our named executive officers. A number of the elements of compensation, such as initial base salary and other personal benefits, are specified in the agreements. For a description of these agreements, see the section entitled, Employment Agreements and Other Arrangements, below.

Setting Executive Compensation

Based on the foregoing objectives, the Compensation Committee has structured the Company s annual and long-term incentive based executive compensation to motivate executives to achieve business goals set by the Company. In furtherance of this, the Compensation Committee reviews data from annual reports and proxy statements issued by competitors to assess the Company s competitive position with respect to the following three components of executive compensation:

- base salary;
- short-term incentives; and
- long-term incentives.

In making compensation decisions, the Committee reviews each element of total compensation against a peer group of publicly traded oil and gas companies. This peer group, which is periodically reviewed and updated by the Compensation Committee, consists of companies that the Committee believes are of similar size and stature to CanArgo Energy Corporation in terms of geographical operating environment and industry profile. The information derived from the peer group provides an indication of what executives might command from companies operating in a similar environment to that of the Company. The companies comprising the peer group are as follows:

- JKX Oil and Gas plc;
- Revus Energy ASA; and
- Lundin Petroleum.

The Compensation Committee does not target a specific percentile in the range of comparative data for each individual executive or for each component of compensation. Instead, the Compensation Committee structures a total compensation package in view of the comparative data and such other factors specific to the executive, including level of responsibility, prior experience and expectations of future performance. The Compensation Committee uses peer group data and also information contained from a review of a wider selection of publicly available annual reports for oil and gas companies to test for reasonableness and competitiveness of its compensation package as a whole, but exercises subjective judgment in allocating compensation among executives and within each individual s total compensation package.

2007 Compensation Committee Activity

The Compensation Committee met four times during fiscal year 2007. The Chairman of the Board and Chief Executive Officer up to June 27, 2007 and the Chief Executive Officer thereafter attended all four meetings to provide their recommendations in respect of various elements of compensation to named officers reporting to them. During 2007, the Compensation Committee reviewed and recommended, for each named officer, the level of compensation for each individual executive compensation component. The Compensation Committee did not adopt any new compensation plans or programs during the year nor did it introduce any new compensation policies during the year. The Company is in the process of developing its general compensation policies and to date no general policy has been adopted by the Board. However, terms and conditions relating to each named officer are contained in their specific service agreements. All named officer service agreements are publicly available through previous SEC filings.

Table of Contents

2007 Executive Compensation Components

For the fiscal year ended December 31, 2007, the principal components of compensation for named officers were:

base salary;

long-term incentive compensation; and

other personal benefits.

Base Salary

Base salaries for executives were determined based upon job responsibilities, level of experience, individual performance, comparisons to the salaries of executives in similar positions obtained from competitive data from the peer group and also information contained from a review of a wider selection of publicly available annual reports for oil and gas companies. The goal for the base pay component is to compensate executives at a level which approximates the median salaries of individuals in comparable positions with comparable companies in the oil and gas industry. The Compensation Committee approves all salary increases for executive officers.

During the course of fiscal year 2007, the Compensation Committee approved base salary increases as follows:

	Annual Base Salary as at 31, December 2006 £	**Annual Base Salary as at 31, December 2007 £**	**Annual Base Salary as at 1, April 2008 £**
Vincent McDonell(1)	**180,000**	**195,000**	**195,000**
David Robson(2)	**225,000**	**Not applicable**	**Not applicable**
Jeffrey Wilkins(3)	**120,000**	**130,000**	**130,000**
Elizabeth Landles(4)	**105,000**	**30,000**	**Not applicable**

(1) In 2007, Mr. McDonnell was appointed Chief Executive Officer, effective June 27, 2007 in addition to his duties as President, Chief Operating Officer, Chief Commercial Officer and Director. In connection with this appointment Mr. McDonnell s salary was increased from £180,000 to £195,000.

(2) Dr. Robson stepped down from the position of Chief Executive Officer and employee Director effective June 27, 2007. Dr. Robson resigned as a Director effective February 7, 2008.

(3) In September 2007, Mr. Wilkins was appointed Director in addition to his duties as Chief Financial Officer. In connection with this appointment Mr. Wilkins salary was increased from £120,000 to £130,000.

(4) Ms. Landles stepped down from the position of Executive Vice President effective September 22, 2007. Following the spin out of the Company s former subsidiary Tethys Petroleum Limited onto the Toronto Stock Exchange (TSX) on June 27, 2007, Ms. Landles devoted 30% of her time to the Corporate Secretary position. Ms. Landles salary was reduced from £105,000 to £30,000 to reflect these changes in responsibility. Ms. Landles resigned from her position as Corporate Secretary effective February 11, 2008.

Long-Term Incentive Coily:inherit;font-size:10pt;">Payments on lines of credit
(254,116
)

(21,400
)
Debt issuance costs
(149
)

(342
)
Proceeds from employee stock plans
3,813

2,107

Purchases of treasury stock
(3,811
)

(2,761
)
Other financing activities
2,140

1,487

Net cash provided by financing activities
23,678

63,991

Effect of exchange rate changes on cash
(3,798
)

2,371

Net increase (decrease) in cash, cash equivalents, and restricted cash

(5,564
)

62,470

Cash, cash equivalents, and restricted cash at beginning of period
65,460

95,299

Cash, cash equivalents, and restricted cash at end of period
$
59,896

$
157,769

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

6

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 the accounting principles generally accepted in the United States (“U.S. GAAP”) 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, 2017. Our fiscal year end is December 31, our third quarter represents the three-month period ended September 30 and our first nine months represents the nine-month period ended September 30. The results of operations for the third quarter and first nine months of 2018 are not necessarily indicative of the results to be expected for the entire year. Unless otherwise noted, all currency amounts are stated in U.S. dollars.
In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of September 30, 2018, our results of operations for the third quarter and first nine months of 2018 and 2017, and our cash flows for the first nine months of 2018 and 2017. All adjustments are of a normal recurring nature. Our balance sheet at December 31, 2017 is derived from the audited consolidated financial statements at that date.
The preparation of financial statements in conformity with 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, 2017.
New Accounting Pronouncements
Standards Adopted in 2018
Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (“FASB”) amended the guidance for revenue from contracts with customers. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted this new guidance as of January 1, 2018 using the modified retrospective transition method, and recorded a net reduction of $2.3 million to opening retained earnings to reflect the cumulative effect of adoption for contracts not completed as of December 31, 2017. Results for reporting periods beginning after December 31, 2017 are presented under the new guidance, while prior period amounts were not adjusted and continue to be reported in accordance with previous guidance.
The adoption of this new guidance primarily affected the timing of revenue recognition for drilling fluid additive products provided to customers in the delivery of an integrated fluid system in our U.S. drilling fluids business. Under previous guidance, we recognized revenue for these products upon shipment of materials and passage of title, with a reserve for estimated product returns. Under the new guidance, we recognize revenue for these products when they are utilized, which generally occurs at the time of consumption by the customer. There was no material impact on reported revenues for the third quarter or first nine months of 2018 as a result of applying the new revenue recognition guidance.
The adoption of this guidance also requires additional disclosures for disaggregated revenues, which are included in Note 11. The following provides a summary of our significant accounting policies for revenue recognition under the new guidance for periods beginning after December 31, 2017.
Revenue Recognition - Fluids Systems. Revenues for drilling fluid additive products and engineering services, when provided to customers in the delivery of an integrated fluid system, are recognized as product revenues when utilized by the customer. Revenues for formulated liquid systems are recognized as product revenues when utilized or lost downhole while drilling. Revenues for equipment rentals and other services provided to customers that are ancillary to

the fluid system product delivery are recognized in rental and services revenues when the services are performed. For direct sales of drilling fluid products, revenues are recognized when control passes to the customer, which is generally upon shipment of materials.

Revenue Recognition - Mats and Integrated Services. Revenues for rentals and services are generated from both fixed-price and unit-priced contracts, which are generally short-term in duration. The activities under these contracts include the installation and rental of matting systems for a period of time and services such as site planning and preparation, pit design, access road construction, environmental protection, fluids and spill storage/containment, erosion control, site restoration services and construction and drilling waste management. Rental revenues are recognized over the rental term and services revenues are recognized when the specified services are performed. Revenues from any subsequent extensions to the rental agreements are recognized over the extension period. Revenues from the sale of mats are recognized when control passes to the customer, which is upon shipment or delivery, depending on the terms of the underlying sales contract.

For both segments, the amount of revenue we recognize for products sold and services performed reflects the consideration to which we expect to be entitled in exchange for such goods or services, which generally reflects the amount we have the right to invoice based on agreed upon unit rates. While billing requirements vary, many of our customer contracts require that billings occur periodically or at the completion of specified activities, even though our performance and right to consideration occurs throughout the contract. As such, we recognize revenue as performance is completed in the amount to which we have the right to invoice. We do not disclose the value of our unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue for the amount to which we have the right to invoice for products sold and services performed.

Shipping and handling costs are reflected in cost of revenues, and all reimbursements by customers of shipping and handling costs are included in revenues.

Accounting for Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. In October 2016, the FASB amended the guidance related to the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than the previous requirement to defer recognition of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold to an outside party. This update does not change U.S. GAAP for the pre-tax effects of an intra-entity asset transfer or for an intra-entity transfer of inventory. We adopted this new guidance as of January 1, 2018 using the modified retrospective transition method, and recorded a net reduction of $4.5 million to opening retained earnings to reflect the cumulative effect of adoption for the current and deferred income tax consequences of an intra-entity sale of mats from the U.S. to the U.K. completed prior to 2018.

The cumulative effect of the changes made to our consolidated balance sheet for the adoption of the new guidance for revenue from contracts with customers and the income tax consequences of intra-entity transfers of assets other than inventory were as follows:

(In thousands)	Balance at December 31, 2017	Impact of Adoption of New Revenue Recognition Guidance	Impact of Adoption of New Intra-Entity Transfers of Assets Guidance	Balance at January 1, 2018
Receivables, net	265,866	(8,441)	—	257,425
Inventories	165,336	5,483	—	170,819
Deferred tax liabilities	31,580	(679)	4,485	35,386
Retained earnings	123,375	(2,279)	(4,485)	116,611

Statement of Cash Flows. In August 2016, the FASB issued new guidance that clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update provides guidance on eight specific cash flow issues. We adopted this new guidance as of January 1, 2018. The adoption of this new guidance had no impact on our historical financial statements or related disclosures.

Standards Not Yet Adopted

Leases. In February 2016, the FASB amended the guidance related to the accounting for leases. The new guidance provides principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize both assets and liabilities arising from financing and operating leases. The classification as either a financing or operating lease will determine whether lease expense is recognized based on an effective interest method basis or on a straight-line basis over the term of the lease, respectively. This guidance is effective for us in the first quarter of 2019, and will be applied using a modified retrospective transition method through a cumulative-effect adjustment, if any, to retained earnings as of the adoption date. As part of our assessment work to date, we have formed an implementation work team, conducted an analysis of the new guidance, implemented new software, and continue to review contracts in our lease portfolio. Based on our current lease portfolio, we anticipate the new guidance will require us to reflect additional assets and liabilities on our consolidated balance sheet; however, we have not yet completed an estimation of such amount and we are still evaluating the overall impact of the new guidance on our consolidated financial statements and related disclosures.

Credit Losses. In June 2016, the FASB issued new guidance which requires financial assets measured at amortized cost basis, including trade receivables, to be presented at the net amount expected to be collected. The new guidance requires an entity to estimate its lifetime “expected credit loss” for such assets at inception which will generally result in the earlier recognition of allowances for losses. This guidance is effective for us in the first quarter of 2020 with early adoption permitted, and will be applied using a modified retrospective transition method through a cumulative-effect adjustment, if any, to retained earnings as of the date of adoption. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

Note 2 – Business Combinations

In November 2017, we acquired certain assets and assumed certain liabilities of Well Service Group, Inc. and Utility Access Solutions, Inc. (together, “WSG”). The purchase price for this acquisition was $77.4 million, net of cash acquired, which included $45.0 million of cash consideration and the issuance of 3,361,367 shares of our common equity valued at $32.4 million. The results of operations of WSG are reported within the Mats and Integrated Services segment for the periods subsequent to the date of the acquisition.

The WSG transaction has been recorded using the acquisition method of accounting and accordingly, assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The acquisition resulted in the preliminary recognition of $27.0 million in other intangible assets consisting primarily of customer relationships, technology and tradename. All of the other intangibles are finite-lived intangible assets that are preliminarily expected to be amortized over periods of 10 to 15 years with a weighted average amortization period of approximately 13 years. The excess of the total consideration was recorded as goodwill, which is deductible for tax purposes, and includes the value of the assembled workforce. The fair values of the identifiable assets acquired and liabilities assumed were based on the company's estimates and assumptions using various market, income and cost valuation approaches, which are classified within level 3 of the fair value hierarchy.

The following table summarizes the amounts recognized for the assets acquired and liabilities assumed as of the November 13, 2017 acquisition date, updated for changes to the purchase price allocation in 2018.

(In thousands)	
Receivables	$ 14,527
Inventories	3,207
Other current assets	114
Property, plant and equipment	16,002
Intangible assets	26,970
Total assets acquired	60,820
Current liabilities	7,133
Total liabilities assumed	7,133
Net assets	53,687

purchased	
Goodwill	23,750
Total purchase consideration	$ 77,437

Cash conveyed at closing in 2017	$ 44,750
Equity issued at closing in 2017	32,438
Cash conveyed at working capital settlement in 2018	249
Total purchase consideration	$ 77,437

Results of operations and pro-forma combined results of operations for the acquired business have not been presented as the effect of this acquisition is not material to our consolidated financial statements.

9

Note 3 – Earnings Per Share

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

	Third Quarter		First Nine Months	
(In thousands, except per share data)	2018	2017	2018	2017
Numerator				
Net income - basic and diluted	$3,644	$2,653	$21,712	$3,302
Denominator				
Weighted average common shares outstanding - basic	90,526	85,426	89,779	84,749
Dilutive effect of stock options and restricted stock awards	2,151	2,251	2,535	2,545
Dilutive effect of 2021 Convertible Notes	905	—	727	—
Weighted average common shares outstanding - diluted	93,582	87,677	93,041	87,294
Income per common share				
Basic	$0.04	$0.03	$0.24	$0.04
Diluted	$0.04	$0.03	$0.23	$0.04

We excluded the following weighted-average potential shares from the calculations of diluted net income per share during the applicable periods because their inclusion would have been anti-dilutive:

	Third Quarter		First Nine Months	
(In thousands)	2018	2017	2018	2017
Stock options and restricted stock awards	735	1,693	1,184	2,149
2017 Convertible Notes	—	7,569	—	7,569

The unsecured convertible senior notes due 2017 (“2017 Convertible Notes”) were repaid upon maturity in October 2017. The 2021 Convertible Notes (as defined in Note 7) only impact the calculation of diluted net income per share in periods that the average price of our common stock, as calculated in accordance with the terms of the indenture governing the 2021 Convertible Notes, exceeds the conversion price of $9.33 per share. We have the option to pay cash, issue shares of common stock, or any combination thereof for the aggregate amount due upon conversion of the 2021 Convertible Notes as further described in Note 7. If converted, we currently intend to settle the principal amount of the notes in cash and as a result, only the amounts payable in excess of the principal amount of the notes, if any, are assumed to be settled with shares of common stock for purposes of computing diluted net income per share.

Note 4 - Stock-Based and Other Long-Term Incentive Compensation
During the second quarter of 2018, the Compensation Committee of our Board of Directors (“Compensation Committee”) approved equity-based compensation to executive officers and other key employees, consisting of 917,901 shares of restricted stock units which will primarily vest in equal installments over a three-year period. At September 30, 2018, there remained 1,041,661 shares available for award under the 2015 Employee Equity Incentive Plan (“2015 Plan”). In addition, during the second quarter of 2018, non-employee directors received a grant of 85,578 shares of restricted stock awards which will vest in full on the earlier of the day prior to the next annual meeting of stockholders following the grant date or the first anniversary of the grant date. The weighted average grant-date fair value was $10.58 per share for the restricted stock units and $10.75 per share for the restricted stock awards.
Also during the second quarter of 2018, the Compensation Committee approved the issuance of cash-settled awards to certain executive officers, including $1.3 million of time-based cash awards and a target amount of $1.3 million of performance-based cash awards. The time-based cash awards vest in equal installments over a three-year period and the performance-based cash awards will be settled based on the relative ranking of our total shareholder return (“TSR”) as compared to the TSR of our designated peer group over a three-year period. The performance period began June 1, 2018 and ends May 31, 2021, with the ending TSR price being equal to the average closing price of our shares over the 30-calendar days ending May 31, 2021 and the cash payout for each executive ranging from 0% to 150% of target. The performance-based cash awards are accrued as a liability award over the performance period based on the estimated fair value. The fair value of the performance-based cash awards is remeasured each period using a Monte-Carlo valuation model with changes in fair value recognized in the consolidated statements of operations.
In connection with the retirement of our Senior Vice President, General Counsel and Chief Administrative Officer on September 30, 2018, we modified certain outstanding stock-based and other incentive awards. During the third quarter of 2018, we modified the vesting conditions of outstanding unvested restricted stock units, performance-based restricted stock units, stock options, and time-based and performance-based cash awards to allow for continued vesting after his retirement date, and to extend the exercise period of all of his outstanding options from 90 days from the date of retirement to the earlier of (a) 2 years from his retirement date or (b) the original expiration date of the award. As a result of the above modifications, we recognized a charge of $1.5 million for the third quarter of 2018.
Note 5 – Receivables
Receivables consisted of the following:

(In thousands)	September 30, 2018	December 31, 2017
Trade receivables:		
Gross trade receivables	$ 254,170	$ 256,851
Allowance for doubtful accounts	(10,035)	(9,457)
Net trade receivables	244,135	247,394
Income tax receivables	5,745	6,905
Other receivables	14,134	11,567
Total receivables, net	$ 264,014	$ 265,866

Other receivables included $9.6 million and $10.8 million for value added, goods and service taxes related to foreign jurisdictions as of September 30, 2018 and December 31, 2017, respectively. As described in Note 1, the adoption of the new revenue recognition guidance resulted in an $8.4 million reduction in gross trade receivables as of January 1, 2018.
Note 6 – Inventories

Inventories consisted of the following:

(In thousands)	September 30, 2018	December 31, 2017
Raw materials:		
Drilling fluids	$ 153,114	$ 123,022
Mats	1,351	1,419
Total raw materials	154,465	124,441
Blended drilling fluids components	37,831	30,495
Finished goods - mats	10,411	10,400
Total inventory	$ 202,707	$ 165,336

Raw materials consist primarily of barite, chemicals, and other additives that are consumed in the production of our drilling fluid systems. Our blended drilling fluids components consist of base drilling fluid systems that have been either mixed internally at our mixing plants or purchased from third-party vendors. These base drilling fluid systems require raw materials to be added, as needed to meet specified customer requirements. As described in Note 1, the adoption of the new revenue recognition guidance resulted in a $5.5 million increase in inventories as of January 1, 2018.

Note 7 – Financing Arrangements and Fair Value of Financial Instruments

Financing arrangements consisted of the following:

	September 30, 2018			December 31, 2017		
(In thousands)	Principal Amount	Unamortized Discount and Debt Issuance Costs	Total Debt	Principal Amount	Unamortized Discount and Debt Issuance Costs	Total Debt
2021 Convertible Notes	$100,000	$ (19,020)	$80,980	$100,000	$ (22,643)	$77,357
ABL Facility	100,200	—	100,200	81,600	—	81,600
Other debt	7,218	—	7,218	1,518	—	1,518
Total debt	207,418	(19,020)	188,398	183,118	(22,643)	160,475
Less: current portion	(6,453)	—	(6,453)	(1,518)	—	(1,518)
Long-term debt	$200,965	$ (19,020)	$181,945	$181,600	$ (22,643)	$158,957

2021 Convertible Notes. In December 2016, we issued $100.0 million of unsecured convertible senior notes ("2021 Convertible Notes") that mature on December 1, 2021, unless earlier converted by the holders pursuant to the terms of the notes. The notes bear interest at a rate of 4.0% per year, payable semiannually in arrears on June 1 and December 1 of each year.

Holders may convert the notes at their option at any time prior to the close of business on the business day immediately preceding June 1, 2021, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2017 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (regardless of whether consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the notes in effect on each applicable trading day;
- during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of notes for each trading day was less than 98% of the last reported sale price of our common stock on such date multiplied by the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events, as described in the indenture governing the notes, such as a consolidation, merger, or share exchange.

On or after June 1, 2021 until the close of business on the business day immediately preceding the maturity date, holders may convert their notes at any time, regardless of whether any of the foregoing conditions have been satisfied. As of October 25, 2018, the notes were not convertible.

The notes are convertible into, at our election, cash, shares of common stock, or a combination of both, subject to satisfaction of specified conditions and during specified periods, as described above. If converted, we currently intend to pay cash for the principal amount of the notes converted. The conversion rate is initially 107.1381 shares of our common stock per $1,000 principal amount of notes (equivalent to an initial conversion price of $9.33 per share of common stock), subject to adjustment in certain circumstances. We may not redeem the notes prior to their maturity date.

In accordance with accounting guidance for convertible debt with a cash conversion option, we separately accounted for the debt and equity components of the notes in a manner that reflected our estimated nonconvertible debt borrowing rate. As of September 30, 2018, the carrying amount of the debt component was $81.0 million, which is net of the unamortized debt discount and issuance costs of $17.1 million and $1.9 million, respectively. Including the impact of the debt discount and related deferred debt issuance costs, the effective interest rate on the notes is approximately 11.3%.

Asset-Based Loan Facility. In May 2016, we entered into an asset-based revolving credit agreement which replaced our previous credit agreement. In October 2017, we entered into an Amended and Restated Credit Agreement (as amended, the "ABL Facility") which amended and restated the prior asset-based revolving credit agreement. The ABL Facility provides financing of up to $150.0 million available for borrowings (inclusive of letters of credit) and can be increased up to a maximum capacity of $225.0 million, subject to certain conditions. As of September 30, 2018, our total borrowing base availability under the ABL Facility was $150.0 million, of which $100.2 million was drawn, resulting in remaining availability of $49.8 million.

The ABL Facility terminates on October 17, 2022; however, the ABL Facility has a springing maturity date that will accelerate the maturity of the ABL Facility to September 1, 2021 if, prior to such date, the 2021 Convertible Notes have not either been repurchased, redeemed, converted or we have not provided sufficient funds to repay the 2021 Convertible Notes in full on their maturity date. For this purpose, funds may be provided in cash to an escrow agent or a combination of cash to an escrow agent and the assignment of a portion of availability under the ABL Facility. The ABL Facility requires compliance with a minimum fixed charge coverage ratio and minimum unused availability of $25.0 million to utilize borrowings or assignment of availability under the ABL Facility towards funding the repayment of the 2021 Convertible Notes.

Borrowing availability under the ABL Facility is calculated based on eligible accounts receivable, inventory, and, subject to satisfaction of certain financial covenants as described below, composite mats included in the rental fleet, net of reserves and limits on such assets included in the borrowing base calculation. To the extent pledged by us, the borrowing base calculation shall also include the amount of eligible pledged cash. The lender may establish such reserves, in part based on appraisals of the asset base, and other limits at its discretion which could reduce the amounts otherwise available under the ABL Facility. Availability associated with eligible rental mats will also be subject to maintaining a minimum consolidated fixed charge coverage ratio and a minimum level of operating income for the Mats and Integrated Services segment.

Under the terms of the ABL Facility, we may elect to borrow at a variable interest rate plus an applicable margin based on either, (1) LIBOR subject to a floor of zero or (2) a base rate equal to the highest of: (a) the federal funds rate plus 50 basis points, (b) the prime rate of Bank of America, N.A. or (c) LIBOR, subject to a floor of zero, plus 100 basis points. The applicable margin ranges from 175 to 275 basis points for LIBOR borrowings, and 75 to 175 basis points for base rate borrowings, based on the ratio of debt to consolidated EBITDA as defined in the ABL Facility. As of September 30, 2018, the applicable margin for borrowings under our ABL Facility was 200 basis points with respect to LIBOR borrowings and 100 basis points with respect to base rate borrowings. The weighted average interest rate for the ABL Facility was 4.4% at September 30, 2018. In addition, we are required to pay a commitment fee on the unused portion of the ABL Facility ranging from 25 to 37.5 basis points, based on the ratio of debt to consolidated EBITDA, as defined in the ABL Facility. The applicable commitment fee as of September 30, 2018 was 37.5 basis points.

The ABL Facility is a senior secured obligation, secured by first liens on all of our U.S. tangible and intangible assets and a portion of the capital stock of our non-U.S. subsidiaries has also been pledged as collateral. The ABL Facility contains customary operating covenants and certain restrictions including, among other things, the incurrence of additional debt, liens, dividends, asset sales, investments, mergers, acquisitions, affiliate transactions, stock repurchases and other restricted payments. The ABL Facility also requires compliance with a fixed charge coverage ratio if availability under the ABL Facility falls below $22.5 million. In addition, the ABL Facility contains customary events of default, including, without limitation, a failure to make payments under the facility, acceleration of more

than $25.0 million of other indebtedness, certain bankruptcy events and certain change of control events.
Other Debt. Our foreign subsidiaries in Italy, India, and Canada maintain local credit arrangements consisting primarily of lines of credit which are renewed on an annual basis. We utilize local financing arrangements in our foreign operations in order to provide short-term local liquidity needs. Advances under these short-term credit arrangements are typically based on a percentage of the subsidiary's accounts receivable or firm contracts with certain customers. We had $4.0 million and $1.0 million, respectively, outstanding under these arrangements at September 30, 2018 and December 31, 2017.
At September 30, 2018, we had letters of credit issued and outstanding of $6.0 million that are collateralized by $6.1 million in restricted cash. Additionally, our foreign operations had $25.8 million outstanding in letters of credit and other guarantees, primarily issued under a credit arrangement in Italy as well as certain letters of credit that are collateralized by $1.5 million in restricted cash.

Our financial instruments include cash and cash equivalents, receivables, payables and debt. We believe the carrying values of these instruments, with the exception of our 2021 Convertible Notes, approximated their fair values at September 30, 2018 and December 31, 2017. The estimated fair value of our 2021 Convertible Notes was $127.8 million at September 30, 2018 and $127.3 million at December 31, 2017, based on quoted market prices at these respective dates.

Note 8 – Income Taxes
The U.S. Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017 resulting in broad and complex changes to U.S. income tax law. The Tax Act includes a one-time transition tax in 2017 on accumulated foreign subsidiary earnings not previously subject to U.S. income tax, reduces the U.S. corporate statutory tax rate from 35% to 21% effective January 1, 2018, generally eliminates U.S. federal income tax on dividends from foreign subsidiaries, creates new tax on certain foreign-sourced earnings, makes other changes to limit certain deductions and changes rules on how certain tax credits and net operating loss carryforwards can be utilized. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements for the year ended December 31, 2017.
The following summarizes the provisional amounts for the income tax effects of the Tax Act that were recorded as of December 31, 2017 and the measurement-period adjustments related to these items recognized during the first nine months of 2018 based on additional guidance provided by regulatory bodies as well as the preparation of our 2017 U.S. federal income tax return. While we have completed our 2017 federal tax compliance filing and related assessment of the income tax effects of the Tax Act, regulatory bodies continue to provide further interpretive guidance on applying the provisions of the Tax Act, particularly related to state tax matters which could require us to make further adjustments to the provisional amounts during the fourth quarter of 2018.
One-Time Transition Tax
The Tax Act requires us to pay U.S. income taxes on accumulated foreign subsidiary earnings not previously subject to U.S. income tax at a rate of 15.5% to the extent of foreign cash and certain other net current assets and 8% on the remaining earnings. We recorded a provisional amount of $6.9 million in 2017 for our one-time transitional tax liability and income tax expense based on estimates of the effects of the Tax Act. In 2018, we finalized our one-time transitional tax liability in the amount of $4.6 million in connection with the completion of our 2017 U.S. federal income tax return and recognized a $2.3 million decrease to tax expense for the third quarter of 2018.
Taxes on Repatriation of Foreign Earnings
Prior to the Tax Act, we considered the unremitted earnings in our non-U.S. subsidiaries held directly by a U.S. parent to be indefinitely reinvested and, accordingly, had not provided any deferred income taxes. As a result of the Tax Act, we now intend to pursue repatriation of unremitted earnings in our non-U.S. subsidiaries held directly by a U.S. parent to the extent that such earnings have been included in the one-time transition tax discussed above, and subject to cash requirements to support the strategic objectives of the non-U.S. subsidiary. As such, we recorded a provisional amount of $7.0 million in 2017 for the estimated liability and income tax expense for any U.S. federal or state income taxes or additional foreign withholding taxes related to repatriation of such earnings. In addition, in 2017 we recognized certain foreign tax credits of $5.5 million in the U.S. related to the provisional accounting for taxes on repatriation of foreign earnings, however, we also recognized a full valuation allowance related to such tax assets as it is more likely than not that these assets will not be realized. In 2018, we finalized this estimated liability with no significant change to the $7.0 million amount provisionally recognized in 2017. Based on additional interpretive guidance by regulatory bodies, we adjusted the foreign tax credits related to the repatriation of foreign earnings to $5.7 million and also adjusted the related full valuation allowance. As a result, there was no significant impact of these adjustments included in income tax expense in 2018.
In 2018, our income tax provision includes the estimated expense for any U.S. federal and state income taxes from the new tax on certain foreign-sourced earnings as well as any additional foreign withholding taxes related to future repatriation of current year earnings in our non-U.S. subsidiaries held directly by a U.S. parent.
Deferred Tax Effects
The Tax Act reduced the U.S. corporate statutory tax rate from 35% to 21% for years after 2017. Accordingly, we remeasured our U.S. net deferred tax liabilities as of December 31, 2017 to reflect the reduced rate that will apply in future periods when those deferred taxes are settled or realized. We recognized a provisional deferred tax benefit of $17.4 million in 2017 to reflect the reduced U.S. tax rate on our estimated U.S. net deferred tax liabilities. Although the tax rate reduction was known, we had not completed our analysis of the effect of the Tax Act on the underlying deferred taxes for the items discussed above, and as such, the amounts recorded as of December 31, 2017 were

provisional. In 2018, we revised our U.S. net deferred tax liabilities in connection with the completion of our 2017 U.S. federal income tax return and recognized a $0.6 million increase to tax expense for the third quarter of 2018 related to the reduced U.S. tax rate on the changes to the underlying deferred taxes.

The net tax benefit recognized in 2017 related to the Tax Act was $3.4 million. As we revised our analysis of the Tax Act in 2018 in connection with the completion of our 2017 U.S. federal income tax return, including assessment of additional guidance

15

provided by regulatory bodies, we revised the cumulative net tax benefit related to the Tax Act to $5.1 million by recognizing an additional $1.7 million net tax benefit for the third quarter of 2018.

The provision for income taxes was $10.1 million for the first nine months of 2018, reflecting an effective tax rate of 32%, compared to $6.9 million for the first nine months of 2017, reflecting an effective tax rate of 68%. The provision for income taxes for the first nine months of 2018 includes a $1.7 million net benefit related to the Tax Act as discussed above as well as a $0.8 million net excess tax benefit primarily related to the vesting of certain stock-based compensation awards. Although the Tax Act reduced the U.S. corporate statutory tax rate effective January 1, 2018, our provision for income taxes in 2018 also includes the estimated expense for any U.S. federal and state income taxes from the new tax on certain foreign-sourced earnings as well as any additional foreign withholding taxes related to future repatriation of current year earnings from our non-U.S. subsidiaries. Due to the relative contribution of our domestic and foreign earnings, these taxes on certain foreign-sourced earnings and the impact of changes to deduction limitations from the Tax Act effectively offset the benefit of the lower U.S. corporate statutory tax rate in our 2018 provision for income taxes. The impact of the Tax Act on our effective tax rate in future periods will depend in large part on the relative contribution of our domestic and foreign earnings. The 2017 effective tax rate was negatively impacted by pre-tax losses in certain international jurisdictions, most notably Australia, and non-deductible expenses relative to the amount of pre-tax income.

We file income tax returns in the United States and several non-U.S. jurisdictions and are subject to examination in the various jurisdictions in which we file. We are no longer subject to income tax examinations for U.S. federal and substantially all state jurisdictions for years prior to 2012 and for substantially all foreign jurisdictions for years prior to 2008. We are currently under examination by the United States federal tax authorities for tax years 2014 – 2016. During the second quarter of 2017, we received a Revenue Agent Report from the IRS disallowing a deduction claimed on our 2015 tax return associated with the forgiveness of certain inter-company balances due from our Brazilian subsidiary and assessing tax due of approximately $3.9 million. We submitted our response to the IRS in the third quarter of 2017, and had an initial tax appeals hearing in June 2018. Although the tax appeals process has not concluded, we believe our tax position is properly reported in accordance with applicable U.S. tax laws and regulations and will continue to vigorously defend our position through the tax appeals process.

Following an audit in 2015, the treasury authority in Mexico issued a tax assessment (inclusive of interest and penalties) in the amount of 60 million pesos (approximately $3.3 million) to our Mexico subsidiary primarily in connection with the export of mats from Mexico which took place in 2010. The mats that are the subject of this assessment were owned by a U.S. subsidiary and leased to our Mexico subsidiary for matting projects in the Mexican market. In 2010, we made the decision to move these mats out of Mexico to markets with higher demand. The Mexican treasury authority determined the export of the mats was the equivalent of a sale, and assessed taxes on the gross declared value of the exported mats to our Mexico subsidiary. We retained outside legal counsel and filed administrative appeals with the treasury authority, but we were notified on April 13, 2018, that the last administrative appeal had been rejected. In the second quarter of 2018, we filed an appeal in the Mexican Federal Tax Court, which required that we post a bond in the amount of the assessed taxes (plus additional interest). Although the tax appeals process has not concluded, we believe our tax position is properly reported in accordance with applicable tax laws and regulations in Mexico and intend to vigorously defend our position through the tax appeals process.

We are also under examination by various tax authorities in other countries, and certain foreign jurisdictions have challenged the amounts of taxes due for certain tax periods. These audits are in various stages of completion. We fully cooperate with all audits, but defend existing positions vigorously. We evaluate the potential exposure associated with various filing positions and record a liability for uncertain tax positions as circumstances warrant. Although we believe all tax positions are reasonable and properly reported in accordance with applicable tax laws and regulations in effect during the periods involved, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals.

Note 9 – Commitments and Contingencies

In the ordinary course of conducting our business, we become involved in litigation and other claims from private party actions, as well as judicial and administrative proceedings involving governmental authorities at the federal, state and local levels. While the outcome of litigation or other proceedings against us cannot be predicted with certainty, management does not consider it reasonably possible that a loss resulting from such litigation or other proceedings, in excess of any amounts accrued or covered by insurance, has been incurred that is expected to have a material adverse impact on our consolidated financial statements.

Escrow Claims Related to the Sale of the Environmental Services Business

Under the terms of the March 2014 sale of our previous Environmental Services business to Ecoserv, LLC (“Ecoserv”), $8.0 million of the sales price was withheld and placed in an escrow account to satisfy claims for possible breaches of representations and warranties contained in the purchase/sale agreement. In December 2014, we received a letter from Ecoserv asserting that we had breached certain representations and warranties contained in the purchase/sale agreement, including failing to disclose operational problems and service work performed on injection/disposal wells and increased barge rental costs. The letter indicated that Ecoserv expected the damages associated with these claims to exceed the escrow amount. In July 2015 we filed an action against Ecoserv in state district court in Harris County, Texas, seeking release of the escrow funds. Thereafter, Ecoserv filed a counterclaim seeking recovery in excess of the escrow funds based on the alleged breach of representations and covenants in the purchase/sale agreement. Ecoserv also alleged that we committed fraud in connection with the March 2014 transaction. Following commencement of the trial in December 2017, we reached a settlement agreement with Ecoserv in the first quarter of 2018, under which Ecoserv received $22.0 million in cash, effectively reducing the net sales price of the Environmental Services business by such amount in exchange for dismissal of the pending claims in the lawsuit, and release of any future claims related to the March 2014 transaction. As a result of the settlement, we recognized a charge to discontinued operations in the fourth quarter of 2017 for $22.0 million ($17.4 million net of tax) to reduce the previously recognized gain from the sale of the Environmental Services business. The reduction in sales price was funded in the first quarter of 2018 with a cash payment of $14.0 million and release of the $8.0 million that had been held in escrow since the March 2014 transaction. In March 2018, the lawsuit was dismissed with prejudice. Litigation expenses related to this matter were included in corporate office expenses in operating income.

Kenedy, Texas Drilling Fluids Facility Fire

In July 2018, a fire occurred at our Kenedy, Texas drilling fluids facility, destroying the distribution warehouse, including inventory and surrounding equipment. In addition, nearby residences and businesses were evacuated as part of the response to the fire. In order to avoid any customer service disruptions, we implemented contingency plans to supply products from alternate facilities in the area and region. During the third quarter of 2018, we received a petition filed on behalf of 23 plaintiffs seeking a total of $1.5 million for alleged bodily injuries and property damage claimed to have been incurred as a result of the fire and the subsequent efforts we undertook to remediate any potential smoke damage. While no trial date has been set for the matter at this time, we have been advised by our insurer that these claims are insured under our general liability insurance program. While this event and related claims are covered by our property, business interruption, and general liability insurance programs, these programs contain self-insured retentions, which remain our financial obligations.

During the third quarter of 2018, we incurred fire-related costs of $4.6 million, which includes $1.9 million for inventory and property, plant and equipment, $1.9 million in property-related cleanup and other costs, and $0.8 million relating to our self-insured retention for third-party claims. Based on the provisions of our insurance policies and initial insurance claims filed, we estimated $3.8 million in expected insurance recoveries and recognized a charge of $0.8 million in other operating (income) loss, net, for the third quarter and first nine months of 2018. The insurance receivable balance included in other receivables as of September 30, 2018 was $3.8 million, which we expect to substantially collect by the end of 2018. As of September 30, 2018, the claims related to the fire under our property, business interruption, and general liability insurance programs have not been finalized.

Note 10 – Supplemental Disclosures to the Statements of Cash Flows

Supplemental disclosures to the statements of cash flows are presented below:

	First Nine Months	
(In thousands)	2018	2017
Cash paid (received) for:		
Income taxes (net of refunds)	$11,899	$(24,673)
Interest	$5,507	$4,385

Cash, cash equivalents, and restricted cash in the consolidated statements of cash flows consisted of the following:

(In thousands)	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 52,243	$ 56,352
Restricted cash (included in other current assets)	7,653	9,108
Cash, cash equivalents, and restricted cash	$ 59,896	$ 65,460

Note 11 – Segment Data

Summarized operating results for our reportable segments are shown in the following table (net of inter-segment transfers):

	Third Quarter		First Nine Months	
(In thousands)	2018	2017	2018	2017
Revenues				
Fluids systems	$180,970	$166,726	$538,087	$453,399
Mats and integrated services	54,359	34,937	160,797	89,975
Total revenues	$235,329	$201,663	$698,884	$543,374
Operating income (loss)				
Fluids systems	$8,288	$7,930	$32,092	$20,145
Mats and integrated services	12,925	10,941	39,864	28,762
Corporate office	(11,159)	(8,989)	(28,921)	(27,311)
Operating income	$10,054	$9,882	$43,035	$21,596

The following table presents further disaggregated revenues for the Fluids Systems segment:

	Third Quarter		First Nine Months	
(In thousands)	2018	2017	2018	2017
United States	$106,992	$97,439	$303,794	$251,265
Canada	16,960	13,642	51,317	40,731
Total North America	123,952	111,081	355,111	291,996
Latin America	6,340	8,809	23,157	26,467
Total Western Hemisphere	130,292	119,890	378,268	318,463
EMEA	46,614	45,847	147,595	131,143
Asia Pacific	4,064	989	12,224	3,793
Total Eastern Hemisphere	50,678	46,836	159,819	134,936
Total Fluids Systems revenues	$180,970	$166,726	$538,087	$453,399

The following table presents further disaggregated revenues for the Mats and Integrated Services segment:

	Third Quarter		First Nine Months	
(In thousands)	2018	2017	2018	2017
Service revenues	$22,989	$6,710	$68,740	$21,056
Rental revenues	19,911	14,736	59,661	45,098
Product sales revenues	11,459	13,491	32,396	23,821
Total Mats and Integrated Services revenues	$54,359	$34,937	$160,797	$89,975

The Mats and Integrated Services segment includes the impact of the WSG acquisition completed in November 2017.

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 unaudited condensed consolidated financial statements and notes to unaudited condensed consolidated financial statements contained in this Quarterly Report as well as our Annual Report on Form 10-K for the year ended December 31, 2017. Our third quarter represents the three-month period ended September 30 and our first nine months represents the nine-month period ended September 30. Unless otherwise noted, all currency amounts are stated in U.S. dollars.

Overview

We are a geographically diversified supplier providing products, rentals, and services primarily to the oil and gas exploration and production ("E&P") industry. We operate our business through two reportable segments: Fluids Systems and Mats and Integrated Services. In addition to the E&P industry, our Mats and Integrated Services segment serves a variety of industries, including the electrical transmission & distribution, pipeline, solar, petrochemical, and construction industries.

Our operating results depend, to a large extent, on oil and gas drilling activity levels in the markets we serve, and particularly for the Fluids Systems segment, the nature of the drilling operations (including the depth and whether the wells are drilled vertically or horizontally), which governs the revenue potential of each well. Drilling activity levels, in turn, depend on a variety of factors, including oil and gas commodity pricing, inventory levels, product demand and regulatory restrictions. Oil and gas prices and activity are cyclical and volatile. This market volatility has a significant impact on our operating results.

While our revenue potential is driven by a number of factors including those described above, rig count data remains the most widely accepted indicator of drilling activity. Average North American rig count data for the third quarter and first nine months of 2018 as compared to the same periods of 2017 is as follows:

	Third Quarter		2018 vs 2017	
	2018	2017	Count	%
U.S. Rig Count	1,051	946	105	11%
Canada Rig Count	209	208	1	—%
North America Rig Count	1,260	1,154	106	9 %

	First Nine Months		2018 vs 2017	
	2018	2017	Count	%
U.S. Rig Count	1,019	861	158	18 %
Canada Rig Count	195	207	(12)	(6)%
North America Rig Count	1,214	1,068	146	14 %

Source: Baker Hughes, a GE Company

The Canadian rig count reflects the normal seasonality for this market, with the highest rig count levels generally observed in the first quarter of each year, prior to Spring break-up. Outside of North America, drilling activity is generally more stable as drilling activity in many countries is based on longer-term economic projections and multi-year drilling programs, which tends to reduce the impact of short-term changes in commodity prices on overall drilling activity. Although drilling activity in certain of our international markets (including Brazil and Australia) has declined in recent years, as a whole, our international activities have remained relatively stable, primarily driven by key contracts with national oil companies. While our international contracts vary in revenue potential and duration, certain international contracts are scheduled to conclude in 2018, including those with Sonatrach, Petrobras, and Kuwait Oil Company, as described below. Our future revenue levels in international markets are largely dependent on our ability to maintain existing market share upon contract renewals which may be subject to a competitive bid process and can be impacted by our customers' procurement strategies and allocation of contract awards.

Segment Overview

Our Fluids Systems segment, which generated 77% of consolidated revenues for the first nine months of 2018, provides customized fluids solutions to E&P customers globally, operating through four geographic regions: North America, Europe, the Middle East and Africa ("EMEA"), Latin America, and Asia Pacific. International expansion, including the penetration of international and national oil companies, is a key element of our Fluids Systems strategy, which in recent years has helped to stabilize revenues as North American oil and gas exploration activities have fluctuated significantly. Our significant international contracts with recent developments include:

- In Kuwait, we provide drilling fluids and related services for land operations under a multi-year contract with Kuwait Oil Company ("KOC"). Work under this contract began in the second half of 2014 and is expected to be completed by the end of 2018. KOC has recently initiated a new tender process for a multi-year period to provide drilling fluids and related services for land operations. We submitted our tender proposal in the third quarter of 2018 and awards are anticipated to be finalized by the end of 2018, although there are no assurances that we will receive a new contract.
- In Algeria, we provide drilling fluids and related services to Sonatrach under Lot 1 and Lot 3 of a three-year contract awarded in 2015 ("2015 Contract"). Work under this contract began in the second quarter of 2015 and is expected to be completed in the fourth quarter of 2018. During the first quarter of 2018, Sonatrach initiated a new tender ("2018 Tender"), for a three-year term succeeding the 2015 Contract. For the 2018 Tender, Sonatrach adopted a change in its procurement process, limiting the number of Lots that could be awarded to major service providers. We were awarded a new contract pursuant to the 2018 Tender. As a consequence of the change in the procurement process, the new award under the 2018 Tender will result in lower revenues from Sonatrach. Based upon the new contract award, we expect that revenue from Sonatrach under the 2018 Tender will be approximately $125 million over the three-year term, which would result in a reduction of approximately $25 million per year as compared to the recent activity levels. The impact of the new contract is expected to begin in the fourth quarter of 2018, as work transitions from the 2015 Contract to the contract awarded under the 2018 Tender.
- In Australia, we provide drilling fluids and related services under a contract with Baker Hughes, a GE Company ("Baker Hughes") as part of its integrated service offering in support of the Greater Enfield project in offshore Western Australia. Work under this contract began in the first quarter of 2018.
- In Brazil, we provide drilling fluids and related services under a multi-year contract with Petrobras for both onshore and offshore locations. Work under this contract began in the first half of 2009 and is scheduled to conclude in December 2018. In the second quarter of 2018, we submitted our proposal for Petrobras' recent tender, covering fluids products and services for a three-year term. Petrobras has delayed any award of a new three-year contract pending further internal review, but has announced a shorter six-month contract award to another supplier. Consequently, we recognized charges of $1.1 million in Brazil during the third quarter of 2018 primarily related to severance costs associated with our planned workforce reductions in the fourth quarter of 2018 in connection with the scheduled completion of the current contract with Petrobras. For the third quarter and first nine months of 2018, our Brazilian subsidiary generated revenues of $5.5 million and $18.7 million, respectively, and an operating loss of $1.2 million and $1.3 million, respectively, substantially all of which related to the Petrobras contract.

In addition to our international expansion efforts, we are also expanding our presence in North America, capitalizing on our capabilities, infrastructure, and strong market position in North American land drilling fluids markets to expand our drilling fluids presence within the deepwater Gulf of Mexico, as well as our presence in adjacent product offerings, including completion fluids and stimulation chemicals. To support this effort, we are incurring start-up costs, including costs associated with additional personnel and facility-related expenses, as well as making additional capital investments.

Our Mats and Integrated Services segment, which generated 23% of consolidated revenues for the first nine months of 2018, provides composite mat rentals utilized for temporary worksite access, along with site construction and related site services to customers in various markets including oil and gas exploration and production, electrical transmission & distribution, pipeline, solar, petrochemical and construction across North America and Europe. We also sell composite mats to customers outside of the U.S. and to domestic customers outside of the E&P market. Following our efforts in recent years to diversify our customer base, Mats and Integrated Services segment revenues from non-E&P markets represented approximately half of our segment revenues for the first nine months of 2018.

In November 2017, we acquired certain assets and assumed certain liabilities of Well Service Group, Inc. and Utility Access Solutions, Inc. (together, “WSG”) for approximately $77 million. Since 2012, WSG has been a strategic logistics and installation service provider for our Mats and Integrated Services segment, offering a variety of complementary services to our composite matting systems, including access road construction, site planning and preparation, environmental protection, fluids and spill storage/containment, erosion control, and site restoration services. The completion of the WSG acquisition expanded our service offering as well as our geographic footprint across the Northeast, Midwest, Rockies, and West Texas regions of the U.S.

WSG contributed approximately $55 million of revenues to the Mats and Integrated Services segment for the first nine months of 2018.

Third Quarter of 2018 Compared to Third Quarter of 2017

Consolidated Results of Operations

Summarized results of operations for the third quarter of 2018 compared to the third quarter of 2017 are as follows:

	Third Quarter		2018 vs 2017	
(In thousands)	2018	2017	$	%
Revenues	$235,329	$201,663	$33,666	17 %
Cost of revenues	194,730	164,587	30,143	18 %
Selling, general and administrative expenses	29,820	27,270	2,550	9 %
Other operating (income) loss, net	725	(76)	801	NM
Operating income	10,054	9,882	172	2 %
Foreign currency exchange (gain) loss	(89)	174	(263)	NM
Interest expense, net	3,668	3,586	82	2 %
Income from operations before income taxes	6,475	6,122	353	6 %
Provision for income taxes	2,831	3,469	(638)	(18)%
Net income	$3,644	$2,653	$991	37 %

Revenues

Revenues increased 17% to $235.3 million for the third quarter of 2018, compared to $201.7 million for the third quarter of 2017. This $33.7 million increase includes a $31.2 million (22%) increase in revenues in North America, comprised of a $12.9 million increase in our Fluids Systems segment and $18.4 million increase in the Mats and Integrated Services segment. Revenues from our international operations increased by $2.4 million (4%), primarily reflecting an increase from our Asia Pacific region partially offset by a decrease from our Latin America region. Additional information regarding the change in revenues is provided within the operating segment results below.

Cost of revenues

Cost of revenues increased 18% to $194.7 million for the third quarter of 2018, compared to $164.6 million for the third quarter of 2017. The 18% increase in cost of revenues was primarily driven by the 17% increase in revenues as well as costs associated with our North American market expansion efforts. In addition, we recognized charges of $1.1 million in Brazil during the third quarter of 2018 primarily related to severance costs associated with our planned workforce reductions in the fourth quarter of 2018 in connection with the scheduled completion of the current contract with Petrobras. Additional information regarding the change in cost of revenues is provided within the operating segment results below.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $2.6 million (9%) to $29.8 million for the third quarter of 2018, compared to $27.3 million for the third quarter of 2017. The increase in expenses includes a corporate office charge of $1.8 million in the third quarter of 2018 associated with the retirement and transition of our Senior Vice President, General Counsel and Chief Administrative Officer, primarily reflecting the impact of modifications to certain outstanding stock-based and other incentive awards. In addition, expenses increased in the Mats and Integrated Services segment, including costs attributable to the WSG acquisition. Selling, general and administrative expenses as a percentage of revenues decreased to 13% for the third quarter of 2018 from 14% for the third quarter of 2017.

Other operating (income) loss, net

In July 2018, a fire occurred at our Kenedy, Texas drilling fluids facility, destroying the distribution warehouse, including inventory and surrounding equipment. In addition, nearby residences and businesses were evacuated as part of the response to the fire. In order to avoid any customer service disruptions, we implemented contingency plans to supply products from alternate facilities in the area and region. While this event and related claims are covered by our property, business interruption, and general liability insurance programs, these programs contain self-insured retentions, which remain our financial obligations.

21

Based on the provisions of our insurance policies and initial insurance claims filed, we recognized a charge of $0.8 million in other operating (income) loss, net, for the third quarter of 2018. As of September 30, 2018, the claims related to the fire under our property, business interruption, and general liability insurance programs have not been finalized.

Foreign currency exchange

Foreign currency exchange was a $0.1 million gain for the third quarter of 2018 compared to a $0.2 million loss for the third quarter of 2017, and reflects the impact of currency translation on assets and liabilities (including intercompany balances) that are denominated in currencies other than functional currencies.

Interest expense, net

Interest expense was $3.7 million for the third quarter of 2018 compared to $3.6 million for the third quarter of 2017. Interest expense in each of the third quarter of 2018 and 2017 includes $1.4 million in noncash amortization of original issue discount and debt issuance costs.

Provision for income taxes

The provision for income taxes was $2.8 million for the third quarter of 2018, reflecting an effective tax rate of 44%, compared to $3.5 million for the third quarter of 2017, reflecting an effective tax rate of 57%. The provision for income taxes for the third quarter of 2018 includes a $0.6 million net benefit primarily related to finalizing our 2017 income tax returns in the U.S. and certain foreign tax jurisdictions, including a $1.7 million net benefit related to our revisions to the income tax effects of the Tax Act as discussed below.

Although the Tax Act reduced the U.S. corporate statutory tax rate from 35% to 21% effective January 1, 2018, our provision for income taxes in 2018 also includes the estimated expense for any U.S. federal and state income taxes from the new tax on certain foreign-sourced earnings as well as any additional foreign withholding taxes related to future repatriation of current year earnings from our non-U.S. subsidiaries. Due to the relative contribution of our domestic and foreign earnings, these taxes on certain foreign-sourced earnings and the impact of changes to deduction limitations from the Tax Act effectively offset the benefit of the lower U.S. corporate statutory tax rate in our 2018 provision for income taxes. The 2017 effective tax rate was negatively impacted by pre-tax losses in certain international jurisdictions, most notably Australia, and non-deductible expenses relative to the amount of pre-tax income.

The Tax Act enacted in December 2017 resulted in broad and complex changes to U.S. income tax law. The Tax Act includes a one-time transition tax in 2017 on accumulated foreign subsidiary earnings not previously subject to U.S. income tax, reduces the U.S. corporate statutory tax rate from 35% to 21% effective January 1, 2018, generally eliminates U.S. federal income tax on dividends from foreign subsidiaries, creates new tax on certain foreign-sourced earnings, makes other changes to limit certain deductions and changes rules on how certain tax credits and net operating loss carryforwards can be utilized.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we made reasonable estimates of the effects and recorded provisional amounts in our 2017 financial statements. Based on additional guidance provided by regulatory bodies and the preparation of our 2017 U.S. federal income tax return in 2018, we recognized a $1.7 million net tax benefit in the third quarter of 2018 to reflect measurement-period adjustments to the provisional amounts recognized in 2017 for the income tax effects of the Tax Act.

Operating Segment Results

Summarized financial information for our reportable segments is shown in the following table (net of inter-segment transfers):

	Third Quarter		2018 vs 2017	
(In thousands)	2018	2017	$	%
Revenues				
Fluids systems	$180,970	$166,726	$14,244	9 %
Mats and integrated services	54,359	34,937	19,422	56%
Total revenues	$235,329	$201,663	$33,666	17%
Operating income (loss)				
Fluids systems	$8,288	$7,930	$358	
Mats and integrated services	12,925	10,941	1,984	
Corporate office	(11,159)	(8,989)	(2,170)	
Operating income	$10,054	$9,882	$172	
Segment operating margin				
Fluids systems	4.6 %	4.8 %		
Mats and integrated services	23.8 %	31.3 %		

23

Fluids Systems

Revenues

Total revenues for this segment consisted of the following:

	Third Quarter		2018 vs 2017	
(In thousands)	2018	2017	$	%
United States	$106,992	$97,439	$9,553	10 %
Canada	16,960	13,642	3,318	24 %
Total North America	123,952	111,081	12,871	12 %
Latin America	6,340	8,809	(2,469)	(28)%
Total Western Hemisphere	130,292	119,890	10,402	9 %
EMEA	46,614	45,847	767	2 %
Asia Pacific	4,064	989	3,075	311 %
Total Eastern Hemisphere	50,678	46,836	3,842	8 %
Total Fluids Systems revenues	$180,970	$166,726	$14,244	9 %

North American revenues increased 12% to $124.0 million for the third quarter of 2018 compared to $111.1 million for the third quarter of 2017. This increase was primarily attributable to the 9% increase in North American average rig count along with market share gains in the North American land market as compared to the prior year.

Internationally, revenues increased 2% to $57.0 million for the third quarter of 2018 compared to $55.6 million for the third quarter of 2017. This increase was primarily attributable to a $3.0 million increase in Australia related to the Baker Hughes Greater Enfield project, as well as increased activity in Albania and Kuwait, partially offset by lower activity in Algeria, Italy, and Brazil.

Operating Income

The Fluids Systems segment generated operating income of $8.3 million for the third quarter of 2018 compared to $7.9 million for the third quarter of 2017. The improvement in operating results includes a $0.2 million improvement from North American operations, reflecting the incremental income generated from the $12.9 million increase in revenues discussed above, partially offset by an increase in operating expenses. Operating expenses for the third quarter of 2018 include $0.8 million of charges associated with the Kenedy, Texas facility fire discussed above, as well as increased start-up costs associated with our product line expansion into stimulation chemicals and completion fluids, including $0.6 million of non-capitalizable expenses related to the upgrade and conversion of a drilling fluids facility into a completion fluids facility. Operating income from international operations increased by $0.2 million, primarily related to the increase in revenues described above, substantially offset by a $1.1 million charge in Brazil primarily related to severance costs associated with our planned workforce reductions in the fourth quarter of 2018 in connection with the scheduled completion of the current contract with Petrobras.

As discussed above, our contract with Petrobras in Brazil is scheduled to conclude in December 2018. Petrobras has delayed any award of a new three-year contract pending further internal review, but has announced a shorter six-month contract award to another supplier. The profitability of our business in Brazil remains highly dependent on increasing levels of drilling activity by Petrobras or other E&P customers. In the absence of a new contract award from Petrobras or an increase in longer-term drilling activity with other E&P customers, we may incur additional charges related to cost reduction efforts, or potential asset impairments, which may negatively impact our future operating results.

Mats and Integrated Services

Revenues

Total revenues for this segment consisted of the following:

	Third Quarter		2018 vs 2017	
(In thousands)	2018	2017	$	%
Service revenues	$22,989	$6,710	$16,279	243 %
Rental revenues	19,911	14,736	5,175	35 %
Product sales revenues	11,459	13,491	(2,032)	(15)%
Total Mats and Integrated Services revenues	$54,359	$34,937	$19,422	56 %

Service revenues for the third quarter of 2018 increased $16.3 million compared to the third quarter of 2017 with substantially all of this increase attributable to the WSG acquisition completed in November 2017. Rental revenues for the third quarter of 2018 increased $5.2 million compared to the third quarter of 2017, primarily attributable to increases in pressure pumping applications as well as the impact of our continuing efforts to expand into non-E&P rental markets.

Product sales revenues were $11.5 million for the third quarter of 2018 compared to $13.5 million for the third quarter of 2017. Revenues from product sales have typically fluctuated based on the timing of mat orders from customers.

Operating Income

Segment operating income increased by $2.0 million to $12.9 million for the third quarter of 2018 compared to $10.9 million for the third quarter of 2017, attributable to increases in revenues as described above.

Operating results for the third quarter of 2018 include approximately $19 million of revenues associated with the WSG acquisition completed in November 2017. The acquired business is predominately focused on site services, as opposed to product sales and rentals, which has shifted the sales mix toward service revenues in 2018, as compared to 2017. While the incremental service revenues provide a positive impact to segment operating income, this shift in revenue mix, along with depreciation and amortization expense related to the purchase accounting allocation, reduce the overall segment operating margin in 2018 as compared to 2017. See Note 2 for further discussion of the WSG acquisition.

Corporate Office

Corporate office expenses increased $2.2 million to $11.2 million for the third quarter of 2018 compared to $9.0 million for the third quarter of 2017. This increase was driven by $1.8 million in charges associated with the retirement and transition of our Senior Vice President, General Counsel and Chief Administrative Officer, primarily reflecting the impact of modifications to certain outstanding stock-based and other incentive awards.

First Nine Months of 2018 Compared to First Nine Months of 2017

Consolidated Results of Operations

Summarized results of operations for the first nine months of 2018 compared to the first nine months of 2017 are as follows:

	First Nine Months		2018 vs 2017	
(In thousands)	2018	2017	$	%
Revenues	$698,884	$543,374	$155,510	29 %
Cost of revenues	569,665	442,608	127,057	29 %
Selling, general and administrative expenses	85,482	79,297	6,185	8 %
Other operating (income) loss, net	702	(127)	829	NM
Operating income	43,035	21,596	21,439	99 %
Foreign currency exchange loss	594	1,100	(506)	NM
Interest expense, net	10,659	10,245	414	4 %
Income from operations before income taxes	31,782	10,251	21,531	NM
Provision for income taxes	10,070	6,949	3,121	45 %
Net income	$21,712	$3,302	$18,410	NM

Revenues

Revenues increased 29% to $698.9 million for the first nine months of 2018, compared to $543.4 million for the first nine months of 2017. This $155.5 million increase includes a $131.9 million (35%) increase in revenues in North America, comprised of a $63.1 million increase in our Fluids Systems segment and $68.8 million increase in the Mats and Integrated Services segment. Revenues from our international operations increased by $23.6 million (14%), primarily driven by increases in our EMEA and Asia Pacific regions partially offset by a decrease in our Latin America region. Additional information regarding the change in revenues is provided within the operating segment results below.

Cost of revenues

Cost of revenues increased 29% to $569.7 million for the first nine months of 2018, compared to $442.6 million for the first nine months of 2017. The 29% increase in cost of revenues was primarily driven by the 29% increase in revenues as well as costs associated with our North American market expansion efforts. In addition, we recognized charges of $1.1 million in Brazil during the third quarter of 2018 primarily related to severance costs associated with our planned workforce reductions in the fourth quarter of 2018 in connection with the scheduled completion of the current contract with Petrobras. Additional information regarding the change in cost of revenues is provided within the operating segment results below.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $6.2 million (8%) to $85.5 million for the first nine months of 2018, compared to $79.3 million for the first nine months of 2017. The increase in expenses was primarily driven by an increase in the Mats and Integrated Services segment, including costs attributable to the WSG acquisition. In addition, the first nine months of 2018 includes a corporate office charge of $1.8 million associated with the retirement and transition of our Senior Vice President, General Counsel and Chief Administrative Officer, primarily reflecting the impact of modifications to certain outstanding stock-based and other incentive awards. Selling, general and administrative expenses as a percentage of revenues decreased to 12% for the first nine months of 2018 from 15% for the first nine months of 2017.

Other operating (income) loss, net

Other operating (income) loss, net for the first nine months of 2018 includes the $0.8 million charge recognized in the third quarter of 2018 associated with the Kenedy, Texas drilling fluids facility fire as discussed above.

Foreign currency exchange

Foreign currency exchange was a $0.6 million loss for the first nine months of 2018 compared to a $1.1 million loss for the first nine months of 2017, and reflects the impact of currency translation on assets and liabilities (including intercompany balances) that are denominated in currencies other than functional currencies.

Interest expense, net

Interest expense was $10.7 million for the first nine months of 2018 compared to $10.2 million for the first nine months of 2017. Interest expense in each of the first nine months of 2018 and 2017 includes $4.1 million in noncash amortization of original issue discount and debt issuance costs.

Provision for income taxes

The provision for income taxes was $10.1 million for the first nine months of 2018, reflecting an effective tax rate of 32%, compared to $6.9 million for the first nine months of 2017, reflecting an effective tax rate of 68%. The provision for income taxes for the first nine months of 2018 includes a $1.7 million net benefit related to the Tax Act as discussed above as well as a $0.8 million net excess tax benefit primarily related to the vesting of certain stock-based compensation awards during the period. The 2017 effective tax rate was negatively impacted by pre-tax losses in certain international jurisdictions, most notably Australia, and non-deductible expenses relative to the amount of pre-tax income.

Operating Segment Results

Summarized financial information for our reportable segments is shown in the following table (net of inter-segment transfers):

	First Nine Months		2018 vs 2017	
(In thousands)	2018	2017	$	%
Revenues				
Fluids systems	$538,087	$453,399	$84,688	19%
Mats and integrated services	160,797	89,975	70,822	79%
Total revenues	$698,884	$543,374	$155,510	29%
Operating income (loss)				
Fluids systems	$32,092	$20,145	$11,947	
Mats and integrated services	39,864	28,762	11,102	
Corporate office	(28,921)	(27,311)	(1,610)	
Operating income	$43,035	$21,596	$21,439	
Segment operating margin				
Fluids systems	6.0%	4.4%		
Mats and integrated services	24.8%	32.0%		

27

Fluids Systems

Revenues

Total revenues for this segment consisted of the following:

	First Nine Months		2018 vs 2017	
(In thousands)	2018	2017	$	%
United States	$303,794	$251,265	$52,529	21 %
Canada	51,317	40,731	10,586	26 %
Total North America	355,111	291,996	63,115	22 %
Latin America	23,157	26,467	(3,310)	(13)%
Total Western Hemisphere	378,268	318,463	59,805	19 %
EMEA	147,595	131,143	16,452	13 %
Asia Pacific	12,224	3,793	8,431	222 %
Total Eastern Hemisphere	159,819	134,936	24,883	18 %
Total Fluids Systems revenues	$538,087	$453,399	$84,688	19 %

North American revenues increased 22% to $355.1 million for the first nine months of 2018 compared to $292.0 million for the first nine months of 2017. This increase was primarily attributable to the 14% increase in North American average rig count along with market share gains in both the North American land markets and the offshore Gulf of Mexico market, along with an increase in customer spending per well in the first nine months of 2018, as compared to the prior year.

Internationally, revenues increased 13% to $183.0 million for the first nine months of 2018 compared to $161.4 million for the first nine months of 2017. This increase was primarily attributable to a $16.8 million improvement in Romania, as higher oil prices resulted in an increase in drilling activity, along with an $8.5 million increase in Australia related to the Baker Hughes Greater Enfield project, as well as increased activity in Kuwait and Albania, partially offset by lower activity in Italy, Algeria, and Brazil.

Operating Income

The Fluids Systems segment generated operating income of $32.1 million for the first nine months of 2018 compared to operating income of $20.1 million for the first nine months of 2017. The improvement in operating results includes a $9.5 million improvement from North American operations, reflecting the incremental income generated from the $63.1 million increase in revenues discussed above, partially offset by an increase in operating expenses. Operating expenses for the first nine months of 2018 include $0.8 million of charges associated with the Kenedy, Texas facility fire discussed above, as well as increased start-up costs associated with our product line expansion into stimulation chemicals and completion fluids, including $0.6 million of non-capitalizable expenses related to the upgrade and conversion of a drilling fluids facility into a completion fluids facility. Operating income from international operations increased by $2.4 million, primarily related to the increase in revenues described above, partially offset by a $1.1 million charge in Brazil primarily related to severance costs associated with our planned workforce reductions, as discussed above.

Mats and Integrated Services

Revenues

Total revenues for this segment consisted of the following:

	First Nine Months		2018 vs 2017	
(In thousands)	2018	2017	$	%
Service revenues	$68,740	$21,056	$47,684	226%
Rental revenues	59,661	45,098	14,563	32 %
Product sales revenues	32,396	23,821	8,575	36 %
Total Mats and Integrated Services revenues	$160,797	$89,975	$70,822	79 %

Service revenues for the first nine months of 2018 increased $47.7 million compared to the first nine months of 2017 with substantially all of this increase attributable to the WSG acquisition completed in November 2017. Rental revenues for the

28

first nine months of 2018 increased $14.6 million compared to first nine months of 2017 primarily attributable to increases in pressure pumping applications as well as the impact of our continuing efforts to expand into non-E&P rental markets.

Product sales revenues were $32.4 million for the first nine months of 2018 compared to $23.8 million for the first nine months of 2017. Revenues from product sales have typically fluctuated based on the timing of mat orders from customers, however, the improvement in 2018 is primarily attributable to our continued efforts to expand our sales into non-E&P markets.

Operating Income

Segment operating income increased by $11.1 million to $39.9 million for the first nine months of 2018 compared to $28.8 million for the first nine months of 2017, attributable to increases in revenues as described above.

Operating results for the first nine months of 2018 include approximately $55 million of revenues associated with the WSG acquisition completed in November 2017. The acquired business is predominately focused on site services, as opposed to product sales and rentals, which has shifted the sales mix toward service revenues in 2018, as compared to 2017. While the incremental service revenues provide a positive impact to segment operating income, this shift in revenue mix, along with depreciation and amortization expense related to the purchase accounting allocation, reduce the overall segment operating margin in 2018 as compared to 2017. See Note 2 for further discussion of the acquisition.

Corporate Office

Corporate office expenses increased $1.6 million to $28.9 million for the first nine months of 2018 compared to $27.3 million for the first nine months of 2017. This increase was driven by $1.8 million in charges associated with the retirement and transition of our Senior Vice President, General Counsel and Chief Administrative Officer, primarily reflecting the impact of modifications to certain outstanding stock-based and other incentive awards. In addition, lower spending related to legal matters and strategic planning efforts were partially offset by an increase in personnel costs.

29

Liquidity and Capital Resources

Net cash provided by operating activities was $20.1 million for the first nine months of 2018 compared to $15.8 million for the first nine months of 2017. The first nine months of 2017 included the receipt of a $37.2 million tax refund received in the second quarter of 2017. Excluding this amount, net cash provided by operating activities increased by $41.5 million in the first nine months of 2018 compared to the first nine months of 2017 due to an improvement in operating results and decreases in the growth of working capital. During the first nine months of 2018, net income adjusted for non-cash items provided cash of $68.6 million, while changes in working capital used $48.5 million of cash.

Net cash used in investing activities was $45.6 million for the first nine months of 2018, including capital expenditures of $32.8 million and the $14 million payment to refund a portion of the net sales price of the Environmental Services business (see Note 9 for further discussion). Capital expenditures during the first nine months of 2018 included $19.9 million for the Mats and Integrated Services segment, including $13.7 million of investments in the mat rental fleet, and $10.8 million for the Fluids Systems segment.

Net cash provided by financing activities was $23.7 million for the first nine months of 2018. We borrowed a net $18.6 million on our ABL Facility (as defined below) during the first nine months of 2018 primarily to fund investing activities as described above.

As of September 30, 2018, we had cash on hand of $52.2 million, substantially all of which resides within our international subsidiaries, including $14.3 million of our total cash balance in Algeria. As a result of the Tax Act as previously described, in the third quarter of 2018, we began repatriating excess cash from certain of our international subsidiaries and we intend to further pursue repatriation of available cash in these international subsidiaries subject to cash requirements to support the strategic objectives of these international subsidiaries. We anticipate that future working capital requirements for our operations will fluctuate directionally with revenues. In addition, we expect total 2018 capital expenditures to be approximately $40 million. Availability under our ABL Facility also provides additional liquidity as discussed further below. Total availability under the ABL Facility will fluctuate directionally based on the level of eligible accounts receivable, inventory, and, subject to satisfaction of certain financial covenants as described below, composite mats included in the rental fleet. We expect our available cash on-hand, cash generated by operations and remaining availability under our ABL Facility to be adequate to fund current operations during the next 12 months.

Our capitalization is as follows:

(In thousands)	September 30, 2018	December 31, 2017
2021 Convertible Notes	$ 100,000	$ 100,000
ABL Facility	100,200	81,600
Other debt	7,218	1,518
Unamortized discount and debt issuance costs	(19,020)	(22,643)
Total debt	$ 188,398	$ 160,475
Stockholder's equity	560,151	547,480
Total capitalization	$ 748,549	$ 707,955
Total debt to capitalization	25.2 %	22.7 %

2021 Convertible Notes. In December 2016, we issued $100.0 million of unsecured convertible senior notes ("2021 Convertible Notes") that mature on December 1, 2021, unless earlier converted by the holders pursuant to the terms of the notes. The notes bear interest at a rate of 4.0% per year, payable semiannually in arrears on June 1 and December 1 of each year.

Holders may convert the notes at their option at any time prior to the close of business on the business day immediately preceding June 1, 2021, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2017 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (regardless of whether consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the notes in effect on each applicable trading day;

30

- during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of notes for each trading day was less than 98% of the last reported sale price of our common stock on such date multiplied by the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events, as described in the indenture governing the notes, such as a consolidation, merger, or share exchange.

On or after June 1, 2021 until the close of business on the business day immediately preceding the maturity date, holders may convert their notes at any time, regardless of whether any of the foregoing conditions have been satisfied. As of October 25, 2018, the notes were not convertible.

The notes are convertible into, at our election, cash, shares of common stock, or a combination of both, subject to satisfaction of specified conditions and during specified periods, as described above. If converted, we currently intend to pay cash for the principal amount of the notes converted. The conversion rate is initially 107.1381 shares of our common stock per $1,000 principal amount of notes (equivalent to an initial conversion price of $9.33 per share of common stock), subject to adjustment in certain circumstances. We may not redeem the notes prior to their maturity date.

Asset-Based Loan Facility. In May 2016, we entered into an asset-based revolving credit agreement which replaced our previous credit agreement. In October 2017, we entered into an Amended and Restated Credit Agreement (as amended, the “ABL Facility”) which amended and restated the prior asset-based revolving credit agreement. The ABL Facility provides financing of up to $150.0 million available for borrowings (inclusive of letters of credit) and can be increased up to a maximum capacity of $225.0 million, subject to certain conditions. As of September 30, 2018, our total borrowing base availability under the ABL Facility was $150.0 million, of which $100.2 million was drawn, resulting in remaining availability of $49.8 million.

The ABL Facility terminates on October 17, 2022; however, the ABL Facility has a springing maturity date that will accelerate the maturity of the ABL Facility to September 1, 2021 if, prior to such date, the 2021 Convertible Notes have not either been repurchased, redeemed, converted or we have not provided sufficient funds to repay the 2021 Convertible Notes in full on their maturity date. For this purpose, funds may be provided in cash to an escrow agent or a combination of cash to an escrow agent and the assignment of a portion of availability under the ABL Facility. The ABL Facility requires compliance with a minimum fixed charge coverage ratio and minimum unused availability of $25.0 million to utilize borrowings or assignment of availability under the ABL Facility towards funding the repayment of the 2021 Convertible Notes.

Borrowing availability under the ABL Facility is calculated based on eligible accounts receivable, inventory, and, subject to satisfaction of certain financial covenants as described below, composite mats included in the rental fleet, net of reserves and limits on such assets included in the borrowing base calculation. To the extent pledged by us, the borrowing base calculation shall also include the amount of eligible pledged cash. The lender may establish such reserves, in part based on appraisals of the asset base, and other limits at its discretion which could reduce the amounts otherwise available under the ABL Facility. Availability associated with eligible rental mats will also be subject to maintaining a minimum consolidated fixed charge coverage ratio and a minimum level of operating income for the Mats and Integrated Services segment.

Under the terms of the ABL Facility, we may elect to borrow at a variable interest rate plus an applicable margin based on either, (1) LIBOR subject to a floor of zero or (2) a base rate equal to the highest of: (a) the federal funds rate plus 50 basis points, (b) the prime rate of Bank of America, N.A. or (c) LIBOR, subject to a floor of zero, plus 100 basis points. The applicable margin ranges from 175 to 275 basis points for LIBOR borrowings, and 75 to 175 basis points for base rate borrowings, based on the ratio of debt to consolidated EBITDA as defined in the ABL Facility. As of September 30, 2018, the applicable margin for borrowings under our ABL Facility was 200 basis points with respect to LIBOR borrowings and 100 basis points with respect to base rate borrowings. The weighted average interest rate for the ABL Facility was 4.4% at September 30, 2018. In addition, we are required to pay a commitment fee on the unused portion of the ABL Facility ranging from 25 to 37.5 basis points, based on the ratio of debt to consolidated EBITDA, as defined in the ABL Facility. The applicable commitment fee as of September 30, 2018 was 37.5 basis points.

The ABL Facility is a senior secured obligation, secured by first liens on all of our U.S. tangible and intangible assets and a portion of the capital stock of our non-U.S. subsidiaries has also been pledged as collateral. The ABL Facility contains customary operating covenants and certain restrictions including, among other things, the incurrence of additional debt, liens, dividends, asset sales, investments, mergers, acquisitions, affiliate transactions, stock repurchases and other restricted payments. The ABL Facility also requires compliance with a fixed charge coverage ratio if availability under the ABL Facility falls below $22.5 million. In addition, the ABL Facility contains customary events of default, including, without limitation, a failure to make payments under the facility, acceleration of more than $25.0 million of other indebtedness, certain bankruptcy events and certain change of control events.

Other Debt. Our foreign subsidiaries in Italy, India, and Canada maintain local credit arrangements consisting primarily of lines of credit which are renewed on an annual basis. We utilize local financing arrangements in our foreign operations in order to provide short-term local liquidity needs. Advances under these short-term credit arrangements are typically based on a percentage of the subsidiary's accounts receivable or firm contracts with certain customers. We had $4.0 million and $1.0 million, respectively, outstanding under these arrangements at September 30, 2018 and December 31, 2017.

At September 30, 2018, we had letters of credit issued and outstanding of $6.0 million that are collateralized by $6.1 million in restricted cash. Additionally, our foreign operations had $25.8 million outstanding in letters of credit and other guarantees, primarily issued under a credit arrangement in Italy as well as certain letters of credit that are collateralized by $1.5 million in restricted cash.

Critical Accounting Estimates and Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which requires us to make assumptions, estimates and judgments that affect the amounts and disclosures reported. Significant estimates used in preparing our condensed consolidated financial statements include the following: allowances for doubtful accounts, reserves for self-insured retention under insurance programs, estimated performance and values associated with employee incentive programs, fair values used for impairments of long-lived assets, including goodwill and other intangibles, the provisional accounting for the Tax Act, and valuation allowances 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, 2017. Except as set forth below, our critical accounting estimates and policies have not materially changed since December 31, 2017.

In May 2014, the FASB amended the guidance for revenue from contracts with customers. We adopted this new guidance as of January 1, 2018 using the modified retrospective transition method. The adoption of this new guidance primarily affected the timing of revenue recognition for drilling fluid additive products provided to customers in the delivery of an integrated fluid system in our U.S. drilling fluids business. Under previous guidance, we recognized revenue for these products upon shipment of materials and passage of title, with a reserve for estimated product returns. Under the new guidance, we recognize revenue for these products when they are utilized, which generally occurs at the time of consumption by the customer. See Note 1 for additional information.

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

At September 30, 2018, we had total principal amounts outstanding under financing arrangements of $207.4 million, including $100.0 million of borrowings under our 2021 Convertible Notes which bear interest at a fixed rate of 4.0% and $100.2 million of borrowings under our ABL Facility. Borrowings under our ABL Facility are subject to a variable interest rate as determined by the ABL Facility. The weighted average interest rate at September 30, 2018 for the ABL Facility was 4.4%. Based on the balance of variable rate debt at September 30, 2018, a 100 basis-point increase in short-term interest rates would have increased annual pre-tax interest expense by $1.0 million.

Foreign Currency

Our principal foreign operations are conducted in certain areas of EMEA, Latin America, Asia Pacific, and Canada. 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 including European euros, Algerian dinar, Romanian new leu, Canadian dollars, Australian dollars, British pounds and Brazilian reais. 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.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2018, the end of the period covered by this quarterly report.

Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting during the quarter ended September 30, 2018 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

Escrow Claims Related to the Sale of the Environmental Services Business

Newpark Resources, Inc. v. Ecoserv, LLC. On July 13, 2015, we filed a declaratory action in the District Court in Harris County, Texas (80th Judicial District) seeking release of $8.0 million of funds placed in escrow by Ecoserv, LLC ("Ecoserv") in connection with its purchase of our Environmental Services business. Ecoserv filed a counterclaim asserting that we breached certain representations and covenants contained in the purchase/sale agreement including, among other things, the condition of certain assets. In addition, Ecoserv has alleged that Newpark committed fraud in connection with the March 2014 transaction.

Under the terms of the March 2014 sale of the Environmental Services business to Ecoserv, $8.0 million of the sales price was withheld and placed in an escrow account to satisfy claims for possible breaches of representations and warranties contained in the purchase/sale agreement. In December 2014, we received a letter from Ecoserv asserting that we had breached certain representations and warranties contained in the purchase/sale agreement, including failing to disclose operational problems and service work performed on injection/disposal wells and increased barge rental costs. The letter indicated that Ecoserv expected the damages associated with these claims to exceed the escrow amount. In July 2015, we filed the action against Ecoserv referenced above. Thereafter, Ecoserv filed a counterclaim seeking recovery in excess of the escrow funds based on the alleged breach of representations and covenants in the purchase/sale agreement. Ecoserv also alleged that we committed fraud in connection with the March 2014 transaction. Following commencement of the trial in December 2017, we reached a settlement agreement with Ecoserv in the first quarter of 2018, under which Ecoserv received $22.0 million in cash, effectively reducing the net sales price of the Environmental Services business by such amount in exchange for dismissal of the pending claims in the lawsuit, and release of any future claims related to the March 2014 transaction. As a result of the settlement, we recognized a charge to discontinued operations in the fourth quarter of 2017 for $22.0 million ($17.4 million net of tax) to reduce the previously recognized gain from the sale of the Environmental Services business. The reduction in sales price was funded in the first quarter of 2018 with a cash payment of $14.0 million and release of the $8.0 million that had been held in escrow since the March 2014 transaction. In March 2018, the lawsuit was dismissed with prejudice. Litigation expenses related to this matter were included in corporate office expenses in operating income.

ITEM 1A. Risk Factors

There have been no material changes during the period ended September 30, 2018 in our "Risk Factors" as discussed in Item 1A to our Annual Report on Form 10 K for the year ended December 31, 2017.

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

a) Not applicable

b) Not applicable

c) The following table details our repurchases of shares of our common stock, for the three months ended September 30, 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs ($ in Millions)
July 2018	—	$ —	—	$ 33.5
August 2018	70,894	$ 10.40	—	$ 33.5
September 2018	—	$ —	—	$ 33.5
Total	70,894	$ 10.40	—	

[1] During the three months ended September 30, 2018, we purchased an aggregate of 70,894 shares surrendered in lieu of taxes under vesting of restricted shares.

Our Board of Directors has approved a repurchase program that authorizes us to purchase up to $100.0 million of our outstanding shares of common stock in the open market or as otherwise determined by management, subject to certain limitations under the ABL Facility and other factors. The repurchase program has no specific term. Repurchases are expected to be funded from operating cash flows and available cash on hand. As part of the share repurchase program, our management has been authorized to establish trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934. There were no share repurchases under the program during the first nine months of 2018 or 2017. As of September 30, 2018, there was $33.5 million of authorization remaining under the program.

34

We have not paid any dividends during the three most recent fiscal years or any subsequent interim period, and we do not intend to pay any cash dividends in the foreseeable future. In addition, our ABL Facility contains covenants which limit the payment of dividends on our common stock.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

The information concerning mine safety violations and other regulatory matters required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95.1 of this Quarterly Report on Form 10-Q, which is incorporated by reference.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

The exhibits listed are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

†10.1	Amended Employment Agreement with Mark J. Airola dated August 15, 2018, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 21, 2018 (SEC File No. 001-02960)
*31.1	Certification of Paul L. Howes pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Gregg S. Piontek pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certification of Paul L. Howes pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of Gregg S. Piontek pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*95.1	Reporting requirements under the Mine Safety and Health Administration
*101.INS	XBRL Instance Document
*101.SCH	XBRL Schema Document
*101.CAL	XBRL Calculation Linkbase Document
*101.DEF	XBRL Definition Linkbase Document
*101.LAB	XBRL Label Linkbase Document
*101.PRE	XBRL Presentation Linkbase Document

† Management compensation plan or agreement

* Filed herewith

** Furnished herewith

35

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: October 26, 2018

NEWPARK RESOURCES, INC.
(Registrant)

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

By: /s/ Gregg S. Piontek
Gregg S. Piontek
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Douglas L. White
Douglas L. White
Vice President, Corporate Controller and Chief Accounting Officer
(Principal Accounting Officer)

36