

NEWPARK RESOURCES INC

Form 10-Q

August 03, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from _____ to _____.

Commission File No. 1-2960

Newpark Resources, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

72-1123385

(I.R.S. Employer
Identification No.)

2700 Research Forest Drive, Suite 100

The Woodlands, Texas

(Address of principal executive offices)

77381

(Zip Code)

(281) 362-6800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 25, 2007, a total of 90,086,238 shares of Common Stock, \$0.01 par value per share, were outstanding.

NEWPARK RESOURCES, INC.
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FOR THE THREE AND SIX MONTHS ENDED
June 30, 2007

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended. We also may provide oral or written forward-looking statements in other materials we release to the public. The words anticipates, believes, estimates, expects, plans, intends, and similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying them. These forward-looking statements reflect the current views of our management; however, various risks, uncertainties and contingencies, including the risks identified in Item 1A, Risk Factors, in Part I of our Annual Report on Form 10-K for the year ended December 31, 2006, and those set forth from time to time in our filings with the Securities and Exchange Commission, could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, these statements, including the success or failure of our efforts to implement our business strategy.

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

For further information regarding these and other factors, risks and uncertainties affecting us, we refer you to the risk factors set forth in Part I of our Annual Report on Form 10-K for the year ended December 31, 2006.

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

(In thousands, except share data)	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,483	\$ 12,974
Receivables, net	156,681	154,443
Inventories	107,464	108,129
Deferred tax asset	26,052	22,970
Prepaid expenses and other current assets	18,207	12,878
Assets of discontinued operations	9,023	15,459
Total current assets	320,910	326,853
Property, plant and equipment, net	223,588	220,827
Goodwill	56,013	55,143
Deferred tax asset		5,348
Other intangible assets, net	11,038	11,623
Other assets	6,541	7,875
	\$ 618,090	\$ 627,669
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Foreign bank lines of credit	\$ 4,546	\$ 10,938
Current maturities of long-term debt	6,383	4,208
Accounts payable	53,412	43,793
Accrued liabilities	36,350	42,692
Liabilities of discontinued operations	844	364
Total current liabilities	101,535	101,995
Long-term debt, less current portion	166,040	198,186
Deferred tax liability	4,567	
Other non-current liabilities	4,210	4,345
Total liabilities	276,352	304,526
Stockholders equity:		

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Common Stock, \$0.01 par value, 100,000,000 shares authorized, 90,043,854 and 89,675,292 shares issued and outstanding, respectively	900	897
Paid-in capital	447,568	444,763
Accumulated other comprehensive income	11,944	7,940
Retained deficit	(118,674)	(130,457)
Total stockholders equity	341,738	323,143
	\$ 618,090	\$ 627,669

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Revenues	\$ 167,050	\$ 160,724	\$ 334,251	\$ 322,603
Cost of revenues	145,587	141,015	288,327	283,859
	21,463	19,709	45,924	38,744
General and administrative expenses	5,111	5,463	13,266	8,792
Operating income	16,352	14,246	32,658	29,952
Foreign currency exchange gain	(293)	(432)	(179)	(327)
Interest expense, net	3,817	4,123	8,241	8,916
Income from continuing operations before income taxes	12,828	10,555	24,596	21,363
Provision for income taxes	4,584	3,694	8,774	7,555
Income from continuing operations	8,244	6,861	15,822	13,808
Loss from discontinued operations, net of tax	(2,945)	(938)	(3,289)	(1,700)
Net income	\$ 5,299	\$ 5,923	\$ 12,533	\$ 12,108
Weighted average shares outstanding				
Basic	89,979	89,373	89,907	89,212
Diluted	90,671	89,874	90,359	89,991
Basic earnings per share				
Income from continuing operations	\$ 0.09	\$ 0.08	\$ 0.18	\$ 0.16
Loss from discontinued operations	(0.03)	(0.01)	(0.04)	(0.02)
Income per share	\$ 0.06	\$ 0.07	\$ 0.14	\$ 0.14
Diluted earnings per share				
Income from continuing operations	\$ 0.09	\$ 0.08	\$ 0.18	\$ 0.15
Loss from discontinued operations	(0.03)	(0.01)	(0.04)	(0.02)

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Income per share	\$ 0.06	\$ 0.07	\$ 0.14	\$ 0.13
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See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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Consolidated Statements of Comprehensive Income**
(Unaudited)

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Net income	\$ 5,299	\$ 5,923	\$ 12,533	\$ 12,108
Changes in fair value of interest rate swap and cap (net of tax of \$23 and \$68)	(129)		(172)	
Foreign currency translation adjustments	3,329	1,624	4,176	965
Comprehensive income	\$ 8,499	\$ 7,547	\$ 16,537	\$ 13,073

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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

(In thousands)	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 12,533	\$ 12,108
Adjustments to reconcile net income to net cash provided by operations:		
Net loss from discontinued operations	3,289	1,700
Depreciation and amortization	12,221	13,110
Stock-based compensation expense	1,197	1,133
Provision for deferred income taxes	5,883	5,354
Provision for doubtful accounts	524	808
Loss on sale of assets	795	321
Change in assets and liabilities:		
Increase in accounts and notes receivable	(2,762)	(11,325)
Increase in inventories	(2,471)	(11,929)
Increase in other assets	(1,219)	(862)
Increase (decrease) in accounts payable	9,619	(4,107)
(Decrease) increase in accrued liabilities and other	(7,086)	6,491
Net operating activities of continuing operations	32,523	12,802
Net operating activities of discontinued operations	3,627	(3,616)
Net cash provided by operating activities	36,150	9,186
Cash flows from investing activities:		
Capital expenditures	(11,532)	(11,972)
Proceeds from sale of property, plant and equipment	633	539
Insurance proceeds from property, plant and equipment claim		3,471
Net investing activities of continuing operations	(10,899)	(7,962)
Net investing activities of discontinued operations		(10,783)
Net cash used in investing activities	(10,899)	(18,745)
Cash flows from financing activities:		
Net (payments) borrowings on lines of credit	(30,555)	15,516
Proceeds from long-term financing	937	
Payments on notes payable and long-term debt, net	(7,048)	(10,417)
Proceeds from exercise of stock options and ESPP	1,702	4,075
Excess tax benefit from exercise of stock options		596
Net cash (used in) provided by financing activities	(34,964)	9,770
Effect of exchange rate changes	222	247

Net (decrease) increase in cash and cash equivalents	(9,491)	458
Cash and cash equivalents at beginning of period	12,974	7,747
Cash and cash equivalents at end of period	\$ 3,483	\$ 8,205
Cash Paid for:		
Income taxes (net of refunds)	\$ 3,759	\$ 2,309
Interest	\$ 8,410	\$ 8,581

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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NEWPARK RESOURCES, INC.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 Basis of Presentation and Significant Accounting Policies

The accompanying unaudited consolidated condensed financial statements of Newpark Resources, Inc. and our wholly-owned subsidiaries, which we refer to as we, our or us, have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the entire year.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For further information, see Note 1 in our Annual Report on Form 10-K for the year ended December 31, 2006.

Note 2 Discontinued Operations

During 2006, we decided to shut down the operations of Newpark Environmental Water Solutions, LLC (NEWS), and dispose of, or redeploy the assets related to this operation along with the disposal and water treatment operations in Wyoming which existed prior to the start up of NEWS. The operations ceased at these facilities during the fourth quarter of 2006, and all remaining assets of these businesses are held for sale. As a result of separate agreements entered into during 2007 to sell substantially all remaining assets and settle outstanding claims related to the NEWS business, a \$0.9 million charge (\$0.6 million after-tax) was recorded during the quarter ended June 30, 2007.

During the second quarter of 2007, we began to explore strategic alternatives related to a sawmill facility that supplies wood products to third parties and provides wooden mat materials for our Mats and Integrated Services segment. In June 2007, we signed a letter of intent with a third party to sell substantially all of the operating assets of the sawmill facility for \$4.0 million, subject to certain adjustments. In July 2007, we entered into a definitive agreement related to this transaction. Accordingly, we reclassified all assets, liabilities and the results of operations to discontinued operations for all periods presented, and recorded an impairment charge of \$3.2 million (\$2.1 million after-tax) to reduce the value of the sawmill assets to expected realizable value. We expect the sale of this facility to be completed in the third quarter of 2007.

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Summarized results of operations from discontinued operations are as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Revenues	\$ 3,748	\$ 4,107	\$ 8,347	\$ 8,993
Loss from discontinued operations before income taxes	(4,419)	(1,437)	(4,880)	(2,604)
Loss from discontinued operations, net of tax	(2,945)	(938)	(3,289)	(1,700)

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

(In thousands)	June 30,	December
	2007	31, 2006
Current assets	\$ 3,340	\$ 5,935
Property, plant and equipment	5,659	9,500
Other assets	24	24
Assets of discontinued operations	\$ 9,023	\$ 15,459
Liabilities of discontinued operations	\$ 844	\$ 364

Note 3 Earnings per Share

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

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Net income	\$ 5,299	\$ 5,923	\$ 12,533	\$ 12,108
Weighted average number of common shares outstanding	89,979	89,373	89,907	89,212
Add: Net effect of dilutive stock options, warrants and restricted stock	692	501	452	779
Adjusted weighted average number of common shares outstanding	90,671	89,874	90,359	89,991
Basic income per share	\$ 0.06	\$ 0.07	\$ 0.14	\$ 0.14
Diluted income per share	\$ 0.06	\$ 0.07	\$ 0.14	\$ 0.13

For the three and six months ended June 30, 2007, we had dilutive stock options and warrants of approximately 3.9 million shares and 1.3 million shares, respectively, which were assumed to be exercised using the treasury stock method. For the three and six months ended June 30, 2006, we had dilutive stock options and warrants of approximately 2.1 million shares and

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2.7 million shares, respectively, which were assumed to be exercised using the treasury stock method. The resulting net effects of stock options and warrants were used in calculating diluted income per share for these periods.

During the three and six months ended June 30, 2007, respectively, we issued 124,197 shares and 317,562 shares in conjunction with the exercise of stock options. During the three and six months ended June 30, 2007, respectively, we issued 10,000 shares and 50,000 shares in conjunction with the vesting of time restricted shares.

Options and warrants to purchase a total of approximately 1.0 million shares and 3.6 million shares, respectively, of common stock were outstanding during the three and six months ended June 30, 2007, respectively, but were not included in the computation of diluted income per share because they were anti-dilutive. Options and warrants to purchase a total of approximately 4.2 million shares and 3.5 million shares, respectively, of common stock were outstanding during the three and six months ended June 30, 2006, respectively, but were not included in the computation of diluted income per share because they were anti-dilutive.

On June 1, 2000, we completed the sale of 120,000 shares of Series B Convertible Preferred Stock, \$0.01 par value per share (the Series B Preferred Stock), and a warrant (the Series B Warrant) to purchase up to 1,900,000 shares of our Common Stock at an exercise price of \$10.075 per share, subject to anti-dilution adjustments. Prior to 2007, all outstanding Series B Preferred Stock was converted to Common Stock. As of June 30, 2007, the Series B Warrant, as adjusted for certain anti-dilution provisions, remains outstanding and provides for the right to purchase up to 1,928,972 shares of our Common Stock. The Series B Warrant was originally issued with a seven year life, expiring June 1, 2007. This warrant contains certain registration provisions, which, if not met, reduce the exercise price of the warrants by 2.5%, compounding monthly, extending the term of the warrant. The warrant may also provide for a corresponding increase in the number of shares that can be purchased by the warrant. We are currently not in compliance with the registration provisions and do not currently expect to establish an effective registration of this warrant until November 2007. As a result of the anti-dilution adjustments and registration provisions, the exercise price for these warrants is \$7.51 as of June 30, 2007.

Note 4 Stock Based Compensation

During the quarter ended June 30, 2007, the Compensation Committee of our Board of Directors approved equity-based compensation to key employees, executive officers, directors and other corporate and divisional officers. These awards included a grant of 415,000 deferred stock awards which become payable share for share in Common Stock subject to meeting certain performance criteria over a three year measurement period. Additionally, 957,500 stock options were granted at an exercise price of \$7.82 which provide for equal vesting over a three-year period with a term of ten years. Non-employee directors each received a grant of 10,000 shares of restricted Common Stock reflecting a total of 60,000 shares, which vest in full on the first anniversary of the grant date.

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

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

(In thousands)	June 30, 2007	December 31, 2006
Trade receivables	\$ 131,130	\$ 130,613
Unbilled revenues	27,852	23,455
Notes and other receivables	655	2,740
Gross accounts receivables	159,637	156,808
Allowance for doubtful accounts	(2,956)	(2,365)
Receivables, net	\$ 156,681	\$ 154,443

Note 6 Inventory

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

(In thousands)	June 30, 2007	December 31, 2006
Finished goods-composite mats	\$ 6,880	\$ 14,458
Raw materials and components:		
Drilling fluids raw material and components	94,109	89,240
Supplies and other	6,475	4,431
Total raw materials and components	100,584	93,671
Total inventory	\$ 107,464	\$ 108,129

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

On April 13, 2007, we announced that, subject to court approval, we had reached a settlement of our pending derivative and class action litigation described below. Under the terms of the settlement, we will pay \$1.6 million, and our directors and officers liability insurance carrier will pay \$8.3 million. A portion of these amounts will be used to pay administration costs and legal fees. If approved, the settlement will resolve all pending shareholder class and derivative litigation against us, our former and current directors, and former officers. As part of the settlement, however, we will preserve certain claims against our former Chief Executive Officer and Chief Financial Officer for matters arising from the potential invoicing irregularities at Soloco Texas, LP and the backdating of stock options. The settlement has received preliminary court approval and notification is being sent to the shareholders. A hearing to consider final approval of the settlement is scheduled for October 9, 2007. As of June 30, 2007, we have accrued our estimated costs required to conclude this settlement. The history and nature of this litigation is set forth below.

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Derivative Actions

On August 17, 2006, a shareholder derivative action was filed in the 24th Judicial District Court for the Parish of Jefferson, captioned: *Victor Dijour, Derivatively on Behalf of Nominal Defendant Newpark Resources, Inc., v. James D. Cole, et al.* On August 28, 2006, a second shareh