NEWPARK RESOURCES INC
Form 10-Q
October 30, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2015

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	**72-1123385**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9320 Lakeside Boulevard, Suite 100 **77381**

The Woodlands, Texas

(Address of principal executive offices) (Zip Code)

(281) 362-6800

(Registrant's telephone number, including area code)

Not Applicable

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

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

Yes √ No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes √ No ___

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

Large accelerated filer √ Accelerated filer__

Non-accelerated filer ___ (Do not check if a smaller reporting company) Smaller reporting company ___

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

Yes ______ No __√__

As of October 23, 2015, a total of 84,149,552 shares of common stock, $0.01 par value per share, were outstanding.

NEWPARK RESOURCES, INC.

INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2015

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, 2014, 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 Item 1A, “Risk Factors”, in Part I of our Annual Report on Form 10-K for the year ended December 31, 2014.

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

Newpark Resources, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands, except share data)	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 113,850	$ 85,052
Receivables, net	176,640	318,600
Inventories	176,828	196,556
Deferred tax assets	4,367	11,013
Prepaid expenses and other current assets	30,116	12,615
Total current assets	501,801	623,836
Property, plant and equipment, net	302,404	283,361
Goodwill	89,749	91,893
Other intangible assets, net	12,190	15,666
Other assets	6,526	5,366
Total assets	$ 912,670	$ 1,020,122
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt	$ 5,913	$ 11,648
Accounts payable	65,230	108,242
Accrued liabilities	42,895	53,342
Total current liabilities	114,038	173,232
Long-term debt, less current portion	172,497	172,498
Deferred tax liabilities	17,058	37,694
Other noncurrent liabilities	5,464	11,240
Total liabilities	309,057	394,664
Commitments and contingencies (Note 10)		
Common stock, $0.01 par value, 200,000,000 shares authorized and 99,371,066 and 99,204,318 shares issued, respectively	994	992
Paid-in capital	530,059	521,228
Accumulated other comprehensive loss	(54,339)	(31,992)

Retained earnings	254,884	262,616
Treasury stock, at cost; 15,214,413 and 15,210,233 shares, respectively	(127,985)	(127,386)
Total stockholders’ equity	603,613	625,458
Total liabilities and stockholders' equity	$ 912,670	$ 1,020,122

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

2

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

(In thousands, except per share data)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2015	**2014**	**2015**	**2014**
Revenues	$154,170	$296,964	$526,278	$812,254
Cost of revenues	138,283	228,661	457,072	639,932
Selling, general and administrative expenses	25,859	28,754	75,800	82,258
Other operating (income) loss, net	(709)	117	(1,777)	(1,941)
Operating income (loss)	(9,263)	39,432	(4,817)	92,005
Foreign currency exchange (gain) loss	3,236	1,221	4,390	(530)
Interest expense, net	2,129	2,321	6,608	8,071
Income (loss) from continuing operations before income taxes	(14,628)	35,890	(15,815)	84,464
Provision for income taxes	(10,157)	12,398	(8,083)	28,901
Income (loss) from continuing operations	(4,471)	23,492	(7,732)	55,563
Income from discontinued operations, net of tax	-	-	-	1,152
Gain from disposal of discontinued operations, net of tax	-	-	-	22,117
Net income (loss)	$(4,471)	$23,492	$(7,732)	$78,832
Income (loss) per common share -basic:				
Income (loss) from continuing operations	$(0.05)	$0.29	$(0.09)	$0.67
Income from discontinued operations	-	-	-	0.28
Net income (loss)	$(0.05)	$0.29	$(0.09)	$0.95
Income (loss) per common share -diluted:				
Income (loss) from continuing operations	$(0.05)	$0.25	$(0.09)	$0.59
Income from discontinued operations	-	-	-	0.23
Net income (loss)	$(0.05)	$0.25	$(0.09)	$0.82

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Net income (loss)	$(4,471)	$23,492	$(7,732)	$78,832
Foreign currency translation adjustments	(6,457)	(13,143)	(22,347)	(11,563)
Comprehensive income (loss)	$(10,928)	$10,349	$(30,079)	$67,269

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

(In thousands)	**Nine Months Ended September 30, 2015**	**2014**
Cash flows from operating activities:		
Net income (loss)	$(7,732)	$78,832
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	32,668	30,925
Stock-based compensation expense	10,514	9,092
Provision for deferred income taxes	(12,240)	(5,277)
Net provision for doubtful accounts	1,176	1,226
Gain on sale of a business	-	(33,974)
Gain on sale of assets	(940)	(1,351)
Excess tax benefit from stock-based compensation	-	(1,175)
Change in assets and liabilities:		
(Increase) decrease in receivables	120,848	(60,348)
(Increase) decrease in inventories	11,190	(11,973)
Increase in other assets	(2,384)	(6,170)
Increase (decrease) in accounts payable	(38,772)	7,531
Increase (decrease) in accrued liabilities and other	(7,161)	15,544
Net cash provided by operating activities	107,167	22,882
Cash flows from investing activities:		
Capital expenditures	(51,375)	(84,710)
Increase in restricted cash	(15,500)	-
Proceeds from sale of property, plant and equipment	1,864	3,144
Proceeds from sale of a business	-	89,766
Net cash (used in) provided by investing activities	(65,011)	8,200
Cash flows from financing activities:		
Borrowings on lines of credit	7,178	54,665
Payments on lines of credit	(9,928)	(58,897)
Debt issuance costs	(1,763)	-
Other financing activities	(1,695)	(43)
Proceeds from employee stock plans	469	3,104
Purchases of treasury stock	(1,771)	(52,892)
Excess tax benefit from stock-based compensation	-	1,175
Net cash used in financing activities	(7,510)	(52,888)
Effect of exchange rate changes on cash	(5,848)	(2,644)
Net increase (decrease) in cash and cash equivalents	28,798	(24,450)

Cash and cash equivalents at beginning of year	85,052	65,840
Cash and cash equivalents at end of period	$113,850	$41,390
Cash paid for:		
Income taxes (net of refunds)	$11,978	$44,929
Interest	$4,720	$5,742

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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, 2014. 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 ending September 30. The results of operations for the third quarter and first nine months of 2015 are not necessarily indicative of the results to be expected for the entire year. Unless otherwise stated, 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, 2015 and the results of our operations for the third quarter and first nine months of 2015 and 2014, and our cash flows for the first nine months of 2015 and 2014. All adjustments are of a normal recurring nature. Our balance sheet at December 31, 2014 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, 2014.

New Accounting Standards

In April 2014, the Financial Accounting Standards Board ("FASB") issued updated guidance that changes the criteria for reporting discontinued operations including enhanced disclosure requirements. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization´s operations and financial results. The new guidance was effective for us in the first quarter of 2015; however, the adoption did not have a material effect on our consolidated financial statements.

In May 2014, the FASB amended the existing accounting standards for revenue recognition. 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. In July 2015, the FASB deferred the effective date of the new guidance by one year and provided entities the option to early adopt the new guidance. The new guidance is effective for us in the first quarter of 2018 with early adoption permitted in the first quarter of 2017. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We are currently evaluating the impact of these amendments, including the adoption and transition alternatives on our consolidated financial statements.

In April and August 2015, the FASB issued updated guidance that changes the presentation of debt issuance costs in financial statements. Under the new guidance, an entity is required to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset, except for debt issuance costs related to revolving debt agreements, which may continue to be presented as an asset. Amortization of the costs will continue to be reported as interest expense. The new guidance is effective for us in the first quarter of 2016 with early adoption permitted. The new guidance will be applied retrospectively to each prior period presented. We are currently evaluating the impact of the new presentation guidance on our consolidated balance sheets.

In July 2015, the FASB issued updated guidance that simplifies the subsequent measurement of inventory. It replaces the current lower of cost or market test with the lower of cost or net realizable value test. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance is effective prospectively for us in the first quarter of 2017 with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In September 2015, the FASB issued updated guidance that eliminates the requirement to restate prior periods to reflect adjustments made to provisional amounts recognized in a business combination. The new guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The new guidance is effective prospectively for us in the first quarter of 2016 with early adoption permitted.

Note 2 – Discontinued Operations

In 2013, we initiated a process to sell our Environmental Services business, and in March of 2014 we completed the sale of the business for $100 million in cash, subject to adjustment based on actual working capital conveyed at closing. Cash proceeds from the sale were $89.8 million in 2014, net of transaction related expenses, including the adjustment related to final working capital conveyed at closing. The agreement significantly limits our post-closing environmental obligations, including those related to the waste transfer and disposal facilities. In addition, $8 million of the sales price was withheld in escrow associated with transaction representations, warranties and indemnities, with $4 million scheduled to be released at each of the nine month and 18 month anniversary of the closing. In December 2014, the buyer made certain claims for indemnification under the terms of the agreement, which defers the release of the escrow funds until such claims are resolved. Further discussion of the buyer’s claims is contained in Note 10. As a result of the sale transaction, we recorded a gain on the disposal of the business of $34.0 million ($22.1 million after-tax) in the first quarter of 2014. The results of operations for this business have been classified as discontinued operations for all periods presented.

Summarized results of operations from discontinued operations are as follows:

	First Nine Months	
(In thousands)	**2015**	**2014**
Revenues	$-	$11,744
Income from discontinued operations before income taxes	-	1,770
Income from discontinued operations, net of tax	-	1,152
Gain from disposal of discontinued operations before income taxes	-	33,974

Gain from disposal of discontinued operations, net of tax	-	22,117

7

Note 3 – Earnings per Share

The following table presents the reconciliation of the numerator and denominator for calculating earnings per share from continuing operations:

	Third Quarter		First Nine Months	
(In thousands, except per share data)	**2015**	**2014**	**2015**	**2014**
Basic EPS:				
Income (loss) from continuing operations	$(4,471)	$23,492	$(7,732)	$55,563
Weighted average number of common shares outstanding	82,990	82,055	82,606	83,260
Basic income (loss) from continuing operations per common share	$(0.05)	$0.29	$(0.09)	$0.67
Diluted EPS:				
Income (loss) from continuing operations	$(4,471)	$23,492	$(7,732)	$55,563
Assumed conversions of Senior Notes	-	1,294	-	3,808
Adjusted income (loss) from continuing operations	$(4,471)	$24,786	$(7,732)	$59,371
Weighted average number of common shares outstanding-basic	82,990	82,055	82,606	83,260
Add: Dilutive effect of stock options and restricted stock awards	-	1,550	-	1,715
Dilutive effect of Senior Notes	-	15,682	-	15,682
Diluted weighted average number of common shares outstanding	82,990	99,287	82,606	100,657
Diluted income (loss) from continuing operations per common share	$(0.05)	$0.25	$(0.09)	$0.59
Stock options and restricted stock excluded from calculation of diluted earnings per share because anti-dilutive for the period	5,144	1,075	3,505	821

For the third quarter and first nine months of 2015, we excluded all potentially dilutive stock options and restricted stock as well as the assumed conversion of the Senior Notes in calculating diluted earnings per share due to the net losses incurred for these periods as the effect was anti-dilutive.

Note 4 – Stock-Based Compensation

During the second quarter of 2015, the Compensation Committee of our Board of Directors approved equity-based compensation to executive officers and other key employees. These awards included a grant of 1,053,937 shares of time-vesting restricted stock units, with vesting periods ranging from three to four years. Non-employee directors received shares of restricted stock totaling 102,218 shares, 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 fair value on the date of grant for these awards was $9.00 per share.

Additionally, 695,698 stock options were granted to executive officers and other key employees at an exercise price of $9.00, which provides for equal vesting over a three-year period with a term of ten years. The estimated fair value of the stock options on the grant date using the Black-Scholes option-pricing model was $3.91. The assumptions used in the Black-Scholes model included a risk free interest rate of 1.57%, expected life of 5.22 years, and expected volatility of 47.3%.

The Compensation Committee also approved performance-based awards during the second quarter of 2015 to executive officers. The performance-based restricted stock units will be settled in shares of common stock and will be based on the relative ranking of the Company's total shareholder return ("TSR") as compared to the TSR of the Company's designated peer group for 2015. The performance period began June 1, 2015 and ends May 31, 2018, with the ending TSR price being equal to the average closing price of our shares over the 30-calendar days ending May 31, 2018. A total of 136,882 performance-based restricted stock units were granted with the payout of shares for each executive ranging from 0%-150% of target. The estimated fair value of each restricted stock unit at the date of grant using the Monte Carlo valuation model was $10.06. The valuation was done as of the date of grant, which included a risk free interest rate of 1.02%, the average closing price for our shares over the 30-calendar days ending May 19, 2015 of $8.96 and expected volatility of 38.4%.

Note 5 – Treasury Stock

In April 2013, our Board of Directors approved a share repurchase program that authorizes the Company to purchase up to $50.0 million of its outstanding shares of common stock. This authorization was subsequently increased to $100.0 million in February 2014. In September 2015, our Board of Directors expanded the repurchase program to include the repurchase of our convertible senior notes, in addition to outstanding shares of common stock. The repurchase program has no specific term. The Company may repurchase shares or convertible senior notes in the open market or as otherwise determined by management, subject to market conditions, business opportunities and other factors. Repurchases are expected to be funded with a combination of cash generated from operations and borrowings under the Company's revolving credit facility. As part of the share repurchase program, the Company's management has been authorized to establish trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934.

During the first nine months of 2014, 4,317,278 shares of common stock were repurchased for an average price of approximately $11.72 per share, including commissions. There were no repurchases under the program during the first nine months of 2015. At September 30, 2015, there was $42.7 million of authorization remaining under the program.

Note 6 – Receivables

Receivables - Receivables consist of the following:

(In thousands)	**September 30, 2015**	**December 31, 2014**

Gross trade receivables	$ 157,073	$ 299,962
Allowance for doubtful accounts	(6,691)	(5,458)
Net trade receivables	150,382	294,504
Other receivables	26,258	24,096
Total receivables, net	$ 176,640	$ 318,600

Other receivables include $17.0 million and $14.5 million for value added, goods and service taxes related to foreign jurisdictions and other tax related receivables as of September 30, 2015 and December 31, 2014, respectively. In addition, other receivables at September 30, 2015 and December 31, 2014 include $8.0 million associated with the Environmental Services business proceeds held in escrow as described in Note 2 above.

Note 7 – Inventories

Inventories - Inventories consist of the following:

(In thousands)	September 30, 2015	December 31, 2014
Raw materials:		
Drilling fluids	$ 138,729	$ 152,076
Mats	863	1,531
Total raw materials	139,592	153,607
Blended drilling fluids components	31,789	40,971
Finished goods - mats	5,447	1,978
Total	$ 176,828	$ 196,556

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 systems require raw materials to be added, as required to meet specified customer requirements.

Note 8 – Goodwill and Other Intangible Assets

We evaluated the carrying values of our goodwill and other indefinite-lived intangible assets as of our annual evaluation date of November 1, 2014 and updated this evaluation as of December 31, 2014 as a result of the significant declines in oil and other commodity prices and decreases in U.S. drilling activities seen subsequent to our November 1, 2014 evaluation date and prior to the filing of our 2014 Form 10-K on February 27, 2015. We determine any impairment of goodwill by comparing the carrying amounts of our reporting units with fair values, which we estimate using a combination of a market multiple and discounted cash flow approach. We also compare the aggregate fair values of our reporting units with our market capitalization. In completing these evaluations in 2014, we determined that no reporting unit had a fair value below its net carrying value and therefore, no impairment was required. Primarily as a result of the ongoing weakness in commodity prices, further decreases in U.S. drilling activities, and increased expectations for the current weakness in U.S. drilling activities to persist for a longer period, along with a significant decline in the quoted market prices of our common stock, we considered these developments in the third quarter of 2015 to be an indicator of impairment that required us to update our goodwill impairment evaluation. As such, during the third quarter of 2015, we updated our fair value estimates based on our current forecasts and expectations for market conditions and determined that each reporting unit's fair value remains in excess of its net carrying value, therefore no impairment was required.

Note 9 – Financing Arrangements and Fair Value of Financial Instruments

Our financing arrangements include $172.5 million of unsecured convertible senior notes ("Senior Notes") and a $200.0 million revolving credit facility which can be increased to a maximum capacity of $325.0 million. At September 30, 2015, we had no outstanding borrowings under the revolving credit facility. Additionally, our foreign operations had $5.9 million outstanding under lines of credit and other borrowings. The Senior Notes bear interest at a rate of 4.0% per year, payable semi-annually in arrears on April 1 and October 1 of each year. Holders may convert the Senior Notes at their option at any time prior to the close of business on the business day immediately preceding the October 1, 2017 maturity date. The conversion rate is initially 90.8893 shares of our common stock per $1,000 principal amount of Senior Notes (equivalent to an initial conversion price of $11.00 per share of common stock), subject to adjustment in certain circumstances. Upon conversion, the Senior Notes will be settled in shares of our common stock. In 2015, holders converted an insignificant amount of Senior Notes into shares of our common stock.

In March 2015, we entered into a Third Amended and Restated Credit Agreement (the "Credit Agreement") which provides for a $200 million revolving loan facility available for borrowings and letters of credit and expires in March 2020. The Credit Agreement has a springing maturity date that will accelerate the maturity of the credit facility to June 2017 if the Senior Notes have not either been repurchased, redeemed, converted and/or refinanced in full or the Company has not provided sufficient funds to an escrow agent to repay the Senior Notes in full on their maturity date. Under the terms of the Credit Agreement, we can elect to borrow at a variable interest rate either based on LIBOR plus a margin based on our consolidated leverage ratio, ranging from 175 to 275 basis points, or at a variable interest rate based on the greatest of: (a) prime rate, (b) the federal funds rate in effect plus 50 basis points, or (c) the Eurodollar rate for a Eurodollar Loan with a one-month interest period plus 100 basis points, in each case plus a margin ranging from 75 to 175 basis points based on our consolidated leverage ratio. The applicable margins on LIBOR borrowings and Eurodollar borrowings on September 30, 2015 were 100 and 200 basis points, respectively. In addition, we are required to pay a commitment fee on the unused portion of the Credit Agreement of 37.5 basis points. The Credit Agreement contains customary financial and operating covenants, including a consolidated leverage ratio, a senior secured leverage ratio and an interest coverage ratio. The Credit Agreement also limits the payment of dividends on our common stock, the repurchase of our common stock and the conversion, redemption, defeasance or refinancing of the Senior Notes.

At September 30, 2015, we had $200.0 million of borrowing capacity, of which $166.6 million is available under our Credit Agreement. The Credit Agreement is a senior secured obligation, secured by first liens on all of our U.S. tangible and intangible assets. Additionally, the Credit Agreement is guaranteed by certain of our U.S. subsidiaries and a portion of the capital stock of our non-U.S. subsidiaries has also been pledged as collateral.

The financial covenants under our Credit Agreement include the following:

	Covenant	September 30, 2015	June 30, 2015	December 31, 2014
Interest coverage ratio	2.50 minimum	9.62	14.76	17.63
Consolidated leverage ratio	4.00 maximum	2.07	1.50	1.12
Senior Secured leverage ratio	3.00 maximum	0.07	0.23	0.19

We were in compliance with all financial covenants as of September 30, 2015. However, continued compliance with our covenants, particularly the consolidated leverage ratio, is largely dependent on our ability to generate sufficient levels of EBITDA, as defined in the Credit Agreement, and reduce our debt levels. Based upon our current and expected financial condition and results of operations, we anticipate being out of compliance with the consolidated leverage ratio covenant at the end of 2015; and if there continues to be reduced drilling activity in the oil and gas industry, we expect to have difficulty complying with these covenants into 2016. As a result, we have initiated discussions with our lead bank in an effort to explore our options, which may include a waiver or amendment to our Credit Agreement. Any waiver or amendment to the Credit Agreement may increase the cost of our borrowings and impose additional limitations over certain types of activities. However, there is no certainty that we will be able to obtain any such relief.

At September 30, 2015, we had letters of credit issued and outstanding which totaled $15.2 million that are collateralized by $15.5 million in restricted cash. At September 30, 2015, this restricted cash was included in other current assets in the accompanying balance sheet. Additionally, our foreign operations had $5.9 million outstanding under lines of credit and other borrowings, as well as $8.5 million outstanding in letters of credit and other guarantees.

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 Senior Notes, approximated their fair values at September 30, 2015 and December 31, 2014. The estimated fair value of our Senior Notes was $164.7 million at September 30, 2015 and $192.3 million at December 31, 2014, based on quoted market prices at these respective dates.

Note 10 – 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.

Wage and Hour Litigation

During the second quarter of 2014, a lawsuit was filed by Jesse Davida, a former employee, in Federal Court in Texas against Newpark Drilling Fluids LLC, alleging violations of the Fair Labor Standards Act ("FLSA"). The plaintiff seeks damages and penalties for the Company's alleged failure to: properly classify its field service employees as "non-exempt" under the FLSA; and pay them on an hourly basis (including overtime). The plaintiff seeks recovery on his own behalf, and seeks certification of a class of similarly situated employees. The Court has conditionally certified a class of plaintiffs as those working as fluid service technicians for Newpark Drilling Fluids for the past 3 years. Beginning in early March of 2015, notification was given to 658 current and former fluid service technician employees of Newpark regarding this litigation and those individuals were given the opportunity to "opt-in" to the *Davida* litigation. The opt-in period closed in early May of 2015 and a total of 91 individuals have joined the *Davida* litigation. Counsel for the plaintiffs' has moved to add state law class action claims for current and former fluid service technicians that worked for Newpark Drilling Fluids in New York, North Dakota, Ohio and Pennsylvania. The Court granted the motion, but has given Newpark until November 23, 2015, to file a motion to dismiss these new claims, which we intend to file with regard to New York, and Ohio. Among other reasons, we intend to seek dismissal of those state law claims on the basis that an insufficient number of employees are located in those states to support a class action. We expect that the effect of the amendment (excluding New York and Ohio claims) will be to include in the litigation approximately 48 current and former fluid services technicians who worked in Pennsylvania that have not opted into the pending litigation, and approximately 42 current and former fluid services technicians who worked in North Dakota that have not opted into the pending litigation. Discovery is in process. The trial of the case has been scheduled for September 2016.

A second case was filed by Josh Christensen in the fourth quarter of 2014, in Federal Court in Texas alleging that individuals treated as independent contractors should have been classified as employees and, as such, are entitled to assert claims for alleged violations of the FLSA (similar to the claims asserted in the *Davida* matter). Five additional plaintiffs joined this litigation after it was filed. In March of 2015, the Court denied the plaintiffs' motion for conditional class certification. Counsel for the plaintiffs did not appeal that ruling and have now filed individual cases for each of the original plaintiffs plus three new plaintiffs, leaving a total of nine independent contractor cases pending. Discovery is in process.

Cases similar to the above have been filed against other companies in the oil and gas services industry, including some of our competitors. In addition, the U.S. Supreme Court is scheduled to consider a case regarding the use of class action procedures in wage and hour litigation (*Tyson Foods, Inc. v. Bouaphakeo*). We are monitoring developments in those matters. We cannot predict with any degree of certainty the outcome of our wage and hour litigation at this time and, as a result, cannot estimate any possible loss or range of loss. We have a number of defenses we can assert against these claims including that these employees are properly classified as exempt employees. We have retained counsel with experience in cases of this nature, and intend to vigorously defend this litigation. In the opinion of management, any liability in these matters should not have a material effect on our consolidated financial statements.

Escrow Claims Related to Sale of Environmental Services Business

Under the terms of the sale of the Environmental Services business to Ecoserv, LLC ("Ecoserv"), $8 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 sale agreement. For the amount withheld in escrow, $4 million was scheduled for release to Newpark at each of the nine month and 18 month anniversary of the closing. In December, 2014, we received a letter from counsel for Ecoserv asserting that we had breached certain representations and warranties contained in the sale agreement; including failing to disclose service work performed on injection wells and increased barge rental costs. The letter indicated that Ecoserv expected the costs associated with these claims to exceed the escrow amount. Following a further exchange of letters, in July of 2015, we filed a declaratory judgment action against Ecoserv in state court in Harris County, Texas, seeking release of the escrow funds. Thereafter, Ecoserv filed a counterclaim seeking recovery of the escrow funds based on the alleged breach of representations and warranties. Ecoserv also alleges that we committed fraud in connection with the sale transaction. We believe there is no basis in the agreement or on the facts to support the claims asserted by Ecoserv and intend to vigorously defend our position, while pursuing release of the entire $8 million escrow. Discovery has commenced between the parties.

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)	**2015**	**2014**	**2015**	**2014**
Revenues				
Fluids systems	$138,765	$251,234	$451,011	$704,020
Mats & integrated services	15,405	45,730	75,267	108,234
Total Revenues	$154,170	$296,964	$526,278	$812,254
Operating Income (loss)				
Fluids systems	$(1,246)	$27,756	$(3,171)	$71,067
Mats & integrated services	(128)	20,541	22,074	47,567
Corporate office	(7,889)	(8,865)	(23,720)	(26,629)
Operating Income (loss)	$(9,263)	$39,432	$(4,817)	$92,005

In response to the significant declines in activity, we initiated cost reduction programs, including workforce reductions, in the first quarter of 2015 and have continued these efforts through the first nine months of 2015. Through September 2015, we have reduced our North American employee base by 369 (approximately 28%) since December 31, 2014, in addition to eliminating most contract positions. In September 2015, we also initiated a voluntary retirement program with certain eligible employees in the United States for retirement dates ranging from the fourth quarter of 2015 through the third quarter of 2016, with enrollment for these employees being completed by September 30, 2015. As a result of these termination programs, we recognized charges for employee termination costs of $2.3 million and $5.9 million in the third quarter and first nine months of 2015, respectively. For these charges in the third quarter and first nine months of 2015, $1.4 million and $3.9 million, respectively, are reported in cost of revenues, and $0.9 and $2.0 million, respectively, are reported in selling, general and administrative expenses. The employee termination costs in the third quarter of 2015 include $2.0 million in Fluids Systems, $0.2 million in Mats and Integrated Services and $0.1 million in our corporate office. Employee termination costs in the first nine months of 2015 include $5.3 million in Fluids Systems, $0.4 million in Mats and Integrated Services and $0.2 million in our corporate office. Accrued employee termination costs at September 30, 2015 are $2.1 million and are expected to be substantially paid by early 2016. Additional employee termination costs of $1.5 million associated with the voluntary retirement program will be recognized over the next year, including approximately $0.8 million in the fourth quarter of 2015.

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 report as well as our Annual Report on Form 10-K for the year ended December 31, 2014. 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 stated, all currency amounts are stated in U.S. dollars.

Overview

We are a geographically diversified oil and gas industry supplier providing products 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 March 2014, we completed the sale of our Environmental Services business, which was historically reported as a third operating segment, for $100 million in cash. The proceeds were used for general corporate purposes, including investments in our core drilling fluids and mats segments, along with share purchases under our share repurchase program. See Note 2 Discontinued Operations in our Notes to Unaudited Condensed Consolidated Financial Statements in Item 1 for additional information.

Our Fluids Systems segment, which generated 86% of consolidated revenues in the first nine months of 2015, provides customized drilling 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.