

NEWPARK RESOURCES INC
Form 10-Q
May 13, 2016
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 March 31, 2016

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.)

9320 Lakeside Boulevard, Suite 100

The Woodlands, Texas

(Address of principal executive offices)

77381

(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

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As of May 6, 2016, a total of 84,111,567 shares of common stock, \$0.01 par value per share, were outstanding.

NEWPARK RESOURCES, INC.

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FOR THE THREE MONTHS ENDED**

MARCH 31, 2016

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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, 2015, 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, 2015.

PART I FINANCIAL INFORMATION**ITEM 1. Financial Statements****Newpark Resources, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)**

(In thousands, except share data)	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$82,534	\$107,138
Receivables, net	188,451	206,364
Inventories	154,638	163,657
Prepaid expenses and other current assets	27,807	29,219
Total current assets	453,430	506,378
Property, plant and equipment, net	312,466	307,632
Goodwill	18,890	19,009
Other intangible assets, net	10,089	11,051
Deferred tax assets	2,095	1,821
Other assets	2,919	3,002
Total assets	\$799,889	\$848,893
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt	\$5,521	\$7,382
Accounts payable	52,034	72,211
Accrued liabilities	35,639	45,835
Total current liabilities	93,194	125,428
Long-term debt, less current portion	160,289	171,211
Deferred tax liabilities	26,272	26,368
Other noncurrent liabilities	5,291	5,627
Total liabilities	285,046	328,634
Commitments and contingencies (Note 7)		
Common stock, \$0.01 par value, 200,000,000 shares authorized and 99,342,156 and 99,377,391 shares issued, respectively	993	994
Paid-in capital	536,459	533,746

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Accumulated other comprehensive loss	(53,642)	(58,276)
Retained earnings	158,488	171,788
Treasury stock, at cost; 15,238,028 and 15,302,345 shares, respectively	(127,455)	(127,993)
Total stockholders' equity	514,843	520,259
Total liabilities and stockholders' equity	\$799,889	\$848,893

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

(In thousands, except per share data)	Three Months	
	Ended March 31,	
	2016	2015
Revenues	\$ 114,544	\$ 208,464
Cost of revenues	111,573	176,634
Selling, general and administrative expenses	23,492	25,978
Other operating income, net	(1,696)	(276)
Operating income (loss)	(18,825)	6,128
Foreign currency exchange (gain) loss	(455)	1,564
Interest expense, net	2,081	2,255
Gain on extinguishment of debt	(1,894)	-
Income (loss) from operations before income taxes	(18,557)	2,309
Provision (benefit) for income taxes	(5,257)	1,316
Net income (loss)	\$(13,300)	\$993
Income (loss) per common share - basic:	\$(0.16)	\$0.01
Income (loss) per common share - diluted:	\$(0.16)	\$0.01

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

(In thousands)	Three Months	
	Ended March 31,	
	2016	2015
Net income (loss)	\$(13,300)	\$993
Foreign currency translation adjustments	4,634	(17,209)
Comprehensive loss	\$(8,666)	\$(16,216)

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

(In thousands)	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	\$(13,300)	\$993
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	9,573	10,527
Stock-based compensation expense	2,974	2,964
Provision for deferred income taxes	(36)	1,775
Net provision for doubtful accounts	528	721
(Gain) loss on sale of assets	(1,271)	11
Gain on extinguishment of debt	(1,894)	-
Excess tax benefit from stock-based compensation	-	(16)
Change in assets and liabilities:		
Decrease in receivables	27,606	45,869
Decrease in inventories	10,630	7,620
(Increase) decrease in other assets	1,667	(265)
Decrease in accounts payable	(20,028)	(29,353)
Decrease in accrued liabilities and other	(19,349)	(9,250)
Net cash provided by (used in) operating activities	(2,900)	31,596
Cash flows from investing activities:		
Capital expenditures	(13,418)	(18,505)
Proceeds from sale of property, plant and equipment	1,450	298
Net cash used in investing activities	(11,968)	(18,207)
Cash flows from financing activities:		
Borrowings on lines of credit	2,479	1,906
Payments on lines of credit	(4,851)	(2,394)
Purchase of senior notes	(9,206)	-
Debt issuance costs	-	(1,456)
Other financing activities	(3)	(12)
Proceeds from employee stock plans	-	305
Excess tax benefit from stock-based compensation	-	16
Net cash used in financing activities	(11,581)	(1,635)
Effect of exchange rate changes on cash	1,845	(5,114)
Net increase (decrease) in cash and cash equivalents	(24,604)	6,640
Cash and cash equivalents at beginning of year	107,138	85,052
Cash and cash equivalents at end of period	\$82,534	\$91,692

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Cash paid for:

Income taxes (net of refunds)

\$1,555 \$4,846

Interest

\$494 \$661

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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NEWPARK RESOURCES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Newpark Resources, Inc. and our wholly-owned subsidiaries, which we refer to as “we,” “our” or “us,” have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission (“SEC”), and do not include all information and footnotes required by 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, 2015. Our fiscal year end is December 31 and our first quarter represents the three month period ended March 31. The results of operations for the first quarter of 2016 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 March 31, 2016 and our results of operations and cash flows for the first quarters of 2016 and 2015. All adjustments are of a normal recurring nature. Our balance sheet at December 31, 2015 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, 2015.

Change in Accounting Estimates

During the first quarter of 2016, we reviewed our estimates of the useful lives and residual values of our composite mats rental fleet included in fixed assets for the Mats and Integrated Services segment. We revised our original estimates based on the observed historical service lives and end of life residual values for composite mats. We now estimate that certain composite mats which were originally estimated to have a useful life of 7 years with zero residual

value will have estimated useful lives ranging from 10 to 12 years with an estimated residual value of 20%. These changes in estimates were recognized prospectively beginning from January 1, 2016 resulting in a reduction in depreciation expense of approximately \$1.6 million for the Mats and Integrated Services segment and additional quarterly net income after taxes of approximately \$1.0 million, or \$0.01 per share, in the first quarter of 2016. We expect these changes to have a similar effect on future quarterly results in 2016 and going forward.

New Accounting Pronouncements

Standard adopted in 2016

In September 2015, the Financial Accounting Standards Board (“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 was effective for us prospectively in the first quarter of 2016; however, the adoption did not have any effect on our consolidated financial statements.

Standards not yet adopted

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 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 February 2016, the FASB issued updated guidance regarding accounting for leases. The new accounting standard 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. The new guidance is effective for us in the first quarter of 2019 with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In March 2016, the FASB issued updated guidance that simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification of excess tax benefits on the statement of cash flows. The new guidance is effective 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.

Note 2 – Earnings per Share

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

(In thousands, except per share data)	First Quarter	
	2016	2015
Basic EPS:		
Net income (loss)	\$(13,300)	\$993
Weighted average number of common shares outstanding	83,258	82,299
Basic income (loss) per common share	\$(0.16)	\$0.01
Diluted EPS:		
Net income (loss)	\$(13,300)	\$993
Assumed conversions of Senior Notes	-	-
Adjusted net income (loss)	\$(13,300)	\$993
Weighted average number of common shares outstanding-basic	83,258	82,299