NEWPARK RESOURCES INC
Form 10-K
March 08, 2011

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

**Form 10-K**

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| þ | **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** <br> **For the fiscal year ended December 31, 2010** |
| | **OR** |
| o | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** <br> **For the Transition Period From to** |

**Commission File Number 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.)* |
| **2700 Research Forest Drive, Suite 100** <br> **The Woodlands, Texas** <br> *(Address of principal executive offices)* | **77381** <br> *(Zip Code)* |

**Registrant s telephone number, including area code**
**(281) 362-6800**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $0.01 par value | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**
**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K þ

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the price at which the common equity was last sold as of June 30, 2010, was $536.6 million. The aggregate market value has been computed by reference to the closing sales price on such date, as reported by The New York Stock Exchange.

As of February 28, 2011, a total of 90,399,974 shares of Common Stock, $0.01 par value per share, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Pursuant to General Instruction G(3) to this Form 10-K, the information required by Items 10, 11, 12, 13 and 14 of Part III hereof is incorporated by reference from the registrant s definitive Proxy Statement for its 2011 Annual Meeting of Stockholders.

**NEWPARK RESOURCES, INC.**

**INDEX TO ANNUAL REPORT ON FORM 10-K**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 information in other materials we release to the public. Words such as will , may , could , would , anticipates , bel 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, contingencies and other factors, some of which are beyond our control, are difficult to predict and 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, amend or clarify 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 Annual Report 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 of this Annual Report on Form 10-K.

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# PART I

## ITEM 1. *Business*

### General

Newpark Resources, Inc. was organized in 1932 as a Nevada corporation. In 1991, we changed our state of incorporation to Delaware. We are a diversified oil and gas industry supplier with three reportable segments: Fluids Systems and Engineering, Mats and Integrated Services, and Environmental Services. We provide our products and services principally to the oil and gas exploration and production industry ( E&P ) industry domestically in the U.S. Gulf Coast, West Texas, Oklahoma, East Texas, North Louisiana, Rocky Mountains, and Northeast regions, as well as internationally in certain areas of Europe, North Africa, Brazil, Canada and Mexico. Further, we are expanding our presence outside the E&P sector through our Mats and Integrated Services segment, where we are marketing to utilities, municipalities and government sectors, both domestically and internationally.

Our principal executive offices are located at 2700 Research Forest Drive, Suite 100, The Woodlands, Texas 77381. Our telephone number is (281) 362-6800. You can find more information about us at our Internet website located at www.newpark.com. Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those reports are available free of charge on or through our Internet website. These reports are available as soon as reasonably practicable after we electronically file these materials with, or furnish them to, the Securities and Exchange Commission ( SEC ). Our Code of Ethics, our Corporate Governance Guidelines, our Audit Committee Charter, our Compensation Committee Charter and our Nominating and Corporate Governance Committee Charter are also posted to the corporate governance section of our Internet website. We make our website content available for informational purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference in this Form 10-K. Information filed with the SEC may be read or copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C., 20549. Information on operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

When referring to Newpark and using phrases such as we , us and our , our intent is to refer to Newpark Resources, I and its subsidiaries as a whole or on a segment basis, depending on the context in which the statements are made.

### Industry Fundamentals

Historically, several factors have driven demand for our services, including the supply, demand and pricing of oil and gas commodities, which drive E&P drilling and development activity. Demand for most of our services is related to the level, type, depth and complexity of oil and gas drilling. The most widely accepted measure of activity for our North American operations is the Baker Hughes Rotary Rig Count. After several consecutive years of elevated North American drilling activity through 2008, the weak economic environment, the instability in the credit markets and declines in oil and natural gas commodity prices significantly impacted North American activity, reducing the average North American rig count from 2,261 in 2008 to 1,310 in 2009, before rebounding to 1,894 in 2010. The dramatic decline in E&P activity in 2009 negatively impacted our operating results during that year. Outside of North America, drilling activity has remained more stable, as drilling activity in many countries is based upon longer term economic projections and multiple year drilling programs, which tend to minimize the impact of short term changes of commodity prices on overall drilling activity.

In our core North American markets, we have seen significant growth in drilling activity in deep shales and other hard rock formations with limited permeability in East Texas, North Louisiana, Rocky Mountains and Northeast regions in recent years. These formations are being exploited with advanced fracture stimulation technology, which facilitates production of natural gas from these formations and drives higher drilling activities. While North American drilling expands into these new geologic formations, the shallower reserves available in the historic oil and gas-producing basins are approaching full development, and the longer-term economic potential of the remaining prospects appears to be declining, including basins along the U.S. Gulf Coast. Many operators have begun to shift the focus of their drilling programs towards unconventional geologic structures, which carry higher

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costs and inherently higher risks of both economic and physical failure for the operators. Also, following the April 2010 Deepwater Horizon oil spill, the Department of Interior of the U.S. government has taken several actions aimed at restricting and temporarily prohibiting certain drilling activity in the Gulf of Mexico. While the Department of Interior has since announced the formal end of the drilling moratorium placed in effect in May 2010, increased permitting requirements are applicable to both shallow water and deepwater drilling activities. As a result, the current activity in the Gulf of Mexico is significantly reduced from historical levels and the near-term outlook remains uncertain.

Internationally, we have seen continued growth in drilling activity, which is more heavily focused on oil, rather than natural gas exploration. The elevation of oil prices in recent years and the expectation of continued increases in world-wide demand have supported continued expansion of the international E&P activity, benefiting our operations in certain areas of Europe, North Africa and Brazil. In early 2011, several international markets in which we operate, including Tunisia, Egypt and Libya experienced political unrest. The near term outlook for operations in these areas remains uncertain and we cannot predict what effect the unrest may have on our operating results from the affected areas.

## Reportable Segments

### *Fluids Systems and Engineering*

Our Fluids Systems and Engineering business offers customized solutions, including highly technical drilling projects involving complex subsurface conditions such as horizontal, directional, geologically deep or deep water drilling. These projects require increased monitoring and critical engineering support of the fluids system during the drilling process. We provide drilling fluids products and technical services to the North American, European, North African, and Brazilian markets. We also provide completion services and equipment rental to customers in Oklahoma and Texas.

We have industrial mineral grinding operations for barite, a critical raw material in drilling fluids products, which serve to support our activity in the drilling fluids market. We grind barite and other industrial minerals at facilities in Houston and Corpus Christi, Texas, New Iberia, Louisiana and Dyersburg, Tennessee. We use the resulting products in our drilling fluids business, and also sell them to third party users, including other drilling fluids companies. We also sell a variety of other minerals, principally to third party industrial (non oil and gas) markets, from our main plant in Houston, Texas and from the plant in Dyersburg, Tennessee.

*Raw Materials* We believe that our sources of supply for materials and equipment used in our drilling fluids business are adequate for our needs. Our specialty milling operation is our primary supplier of barite used in our drilling fluids business. Our mills obtain raw barite ore under supply agreements from foreign sources, primarily China and India. We obtain other materials used in the drilling fluids business from various third party suppliers. We have encountered no serious shortages or delays in obtaining any raw materials.

*Technology* We seek patents and licenses on new developments whenever we believe it creates a competitive advantage in the marketplace. We own the patent rights to a family of high-performance water-based products, which we market as DeepDrill® and FlexDrill™ systems. In addition, in 2010 we introduced Evolution™, a new water-based system which was designed to enhance drilling performance and provide environmental benefits. Proprietary technology and systems is an important aspect of our business strategy. We also rely on a variety of unpatented proprietary technologies and know-how in many of our applications. We believe that our reputation in the industry, the range of services we offer, ongoing technical development and know-how, responsiveness to customers and understanding of regulatory requirements are of equal or greater competitive significance than our existing proprietary rights.

*Competition* We face competition from larger companies, including Schlumberger, Halliburton and Baker Hughes, which compete vigorously on fluids performance and/or price. In addition, these companies have broad product and service offerings in addition to their drilling fluids. We also have smaller regional competitors competing with us mainly on price and local relationships. We believe that the principal competitive factors in our businesses include a combination of price, reputation, technical proficiency, reliability, quality, breadth of services offered and experience. We believe that our competitive position is enhanced by our proprietary products and services.

*Customers* Our customers are principally major and independent oil and gas E&P companies operating in the markets that we serve. During 2010, approximately 54% of segment revenues were derived from the 20 largest segment customers, and 73% of segment revenues were generated domestically. Typically, we perform services either under short-term standard contracts or under longer term service agreements. As most agreements with our customers can be terminated upon short notice, our backlog is not significant. We do not derive a significant portion of our revenues from government contracts. See *Note 12 Segment and Related Information in Item 8. Financial Statements and Supplementary Data* for additional information on financial and geographic data.

***Mats and Integrated Services***

We provide mat rentals, location construction and related well site services to E&P customers in the Northeast U.S. region, onshore U.S. Gulf Coast, and Western Colorado, and mat rentals to the utility industry in the U.K. These mats provide environmental protection and ensure all-weather access to sites with unstable soil conditions.

We manufacture our DuraBase™ composite mat system for sales as well as for use in our domestic and international rental operations. Our marketing efforts for this product remain focused in principal oil and gas industry markets which include the Pacific Rim, South America, Europe, and the Middle East, as well as markets outside the E&P sector in the U.S. and Europe. We believe these mats have worldwide applications outside our traditional oilfield market, primarily in infrastructure construction, maintenance and upgrades of electric utility transmission lines, military logistics and as temporary roads for movement of oversized or unusually heavy loads.

*Raw Materials* We believe that our sources of supply for materials and equipment used in our business are adequate for our needs. We are not dependent upon any one supplier and we have encountered no serious shortages or delays in obtaining any raw materials. The resins, chemicals and other materials used to manufacture composite mats are widely available. Resin is the largest raw material component in the manufacturing of our composite mat products.

*Technology* We have obtained patents related to several of the components utilized in our DuraBase mat system as well as our composite mat manufacturing process. Using proprietary technology and systems is an important aspect of our business strategy. We believe that these products provide us with a distinct advantage over our competition, which is generally using wooden mat products. We believe that our reputation in the industry, the range of services we offer, ongoing technical development and know-how, responsiveness to customers and understanding of regulatory requirements also have competitive significance in the markets we serve.

*Competition* Our market is fragmented and competitive, with nine to ten competitors providing various forms of mat products and services. We provide DuraBase composite mat systems to many customers, both domestic and international. The mat sales component of our business is not as fragmented as the oilfield services segment with only a few competitors providing various alternatives to our DuraBase mat products. This is due to many factors, including large capital start-up costs and proprietary technology associated with this product.

We believe that the principal competitive factors in our businesses include price, reputation, technical proficiency, reliability, quality and breadth of services offered. We also believe that our competitive position is enhanced by our proprietary products, services and experience.

*Customers* Our customers are principally major and independent oil and gas E&P companies operating in the markets that we serve. During 2010, approximately 91% of our segment revenues were derived from the 20 largest segment customers, of which, the largest customer represented 37% of our segment revenues. Typically, we perform services either under short-term contracts and rental service agreements. As most agreements with our customers are cancelable upon short notice, our backlog is not significant. We do not derive a significant portion of our revenues from government contracts. See *Note 12 Segment and Related Information* in Item 8. *Financial Statements and Supplementary Data* for additional information on financial and geographic data.

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***Environmental Services***

We process and dispose of waste generated by our oil and gas customers that is treated as exempt under the Resource Conservation and Recovery Act ( RCRA ). Primary revenue sources include onshore and offshore drilling waste management as well as reclamation services. Additionally, we provide disposal services in the West Texas market. We operate six receiving and transfer facilities located along the U.S. Gulf Coast. E&P waste is collected at the transfer facilities from drilling and production operations located offshore, onshore and within inland waters. Waste is accumulated at the transfer facilities and moved by barge through the Gulf Intracoastal Waterway to our processing and transfer facility at Port Arthur, Texas, and, if not recycled, is trucked to injection disposal facilities. We also recycle a portion of the material received and deliver it to municipal landfill facilities for application as a commercial product. Any remaining material is injected, after further processing, into environmentally secure geologic formations, effecting a permanent isolation of the material from the environment.

Under permits from Texas state regulatory agencies, we currently operate a 50-acre injection well facility in Jefferson County, Texas and an additional facility at a 400-acre site near Fannett, Texas. The Fannett site was placed in service in September 1995 and is our primary facility for disposing of E&P waste. Utilizing this same technology, we also receive and dispose of non-hazardous industrial waste principally from generators in the U.S. Gulf Coast market, including refiners, manufacturers, service companies and industrial municipalities that produce waste that is not regulated under RCRA. These non-hazardous waste streams are injected into a separate well utilizing the same low-pressure injection technology.

We are licensed to process E&P waste contaminated with naturally occurring radioactive material ( NORM ). We currently operate under a license that authorizes us to inject NORM directly into dedicated disposal wells at our Jefferson County facility. For more information on NORM, please refer to the discussion under Environmental Regulation below.

*Technology* We use proprietary technology to dispose of E&P waste by low-pressure injection into unique geologic structures deep underground. We have patents covering our waste processing and injection operations which expire in 2014. Our injection technology is distinguished from conventional methods in that it utilizes very low pressure to move the waste into the injection zone.

*Competition* Our competition in this business consists of one large independent, US Liquids of Louisiana, and several smaller companies which utilize a variety of disposal methods and generally serve specific geographic markets. In addition, we face competition with our major customers, who continually re-evaluate their decision to use internal disposal methods or a third-party disposal company, such as ours. We believe that the principal competitive factors in our businesses include price, reputation and reliability. We believe that we compete effectively on the basis of these factors.

*Customers* Our customers are principally major and independent oil and gas E&P companies operating in the markets that we serve. During 2010, approximately 56% of our segment revenues were derived from the 20 largest segment customers, of which, the largest customer represented 22% of our segment revenues. All of our segment revenues are generated domestically. Typically, we perform services either under short-term standard contracts or under longer term service agreements. As most agreements with our customers are cancelable upon short notice, our backlog is not significant. We do not derive a significant portion of our revenues from government contracts. See *Note 12 Segment and Related Information* in Item 8. *Financial Statements and Supplementary Data* for additional information on financial and geographic data.

**Employees**

At January 31, 2011, we employed 1,001 full and part-time personnel, none of which are represented by unions. We consider our relations with our employees to be satisfactory.

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## Environmental Regulation

We seek to comply with all applicable legal requirements concerning environmental matters. Our environmental services business processes and disposes of several types of non-hazardous waste. The non-hazardous wastes handled by our environmental services business are generally described as follows:

*E&P Waste*. E&P waste typically contains levels of oil and grease, salts, dissolved solids and heavy metals within limits defined by state regulations. E&P waste also includes soils that have become contaminated by these materials.

*NORM*. NORM is present throughout the earth s crust at very low levels. Radium can co-precipitate with scale in the production stream as it is drawn to the surface and encounters a pressure or temperature change in the well tubing or production equipment. This scale contains radioactive elements that can become concentrated on tank bottoms or at water discharge points at production facilities.

*Non-hazardous Industrial Waste*. This category of waste is generated by industries not associated with the exploration or production of oil and gas. This includes refineries and petrochemical plants.

Our business is affected by governmental regulations relating to the oil and gas industry in general, as well as environmental, health and safety regulations that have specific application to our business. Our activities are impacted by various federal, state and provincial pollution control, health and safety programs that are administered and enforced by regulatory agencies. While our business activities are not directly subject to the drilling moratorium and increased permitting requirements imposed during 2010 following the Deepwater Horizon accident, both our drilling fluids and environmental services segments were impacted by these regulatory actions.

Additionally, our business exposes us to environmental risks. For example, our environmental services business routinely handles, stores and disposes of non-hazardous regulated materials and waste. We could be held liable for improper cleanup and disposal based upon statute, negligence, strict liability, contract or otherwise. As is common in the oil and gas industry, we often are required contractually to indemnify our customers or other third-parties against certain risks related to the services we perform, including damages stemming from environmental contamination.

We have implemented various procedures designed to ensure compliance with applicable regulations and reduce the risk of damage or loss. These include specified handling procedures and guidelines for regulated waste, ongoing employee training and monitoring and maintaining insurance coverage.

We also employ a corporate-wide web-based health, safety and environmental management system ( HSEMS ), which is ISO 14001:2004 compliant. The HSEMS is composed of modules designed to capture information related to the planning, decision-making, and general operations of environmental regulatory activities within our operations. We also use the HSEMS to capture the information generated by regularly scheduled independent audits that are done to validate the findings of our internal monitoring and auditing procedures.

## ITEM 1A. *Risk Factors*

The following summarizes the most significant risk factors to our business. Our success will depend, in part, on our ability to anticipate and effectively manage these and other risks. Any of these risk factors, either individually or in combination, could have significant adverse impacts to our results of operations and financial condition, or prevent us from meeting our profitability or growth objectives.

***Risk Related to the Impact of Restrictions on Offshore Drilling Activity in the Gulf of Mexico***

In April 2010, the Deepwater Horizon drilling rig sank in the Gulf of Mexico after a blowout and fire, resulting in the ongoing discharge of oil from the well. Following the Deepwater Horizon oil spill, the Department of Interior of the U.S. government took several actions aimed at restricting and temporarily prohibiting certain drilling activity in the Gulf of Mexico. While the Department of Interior has announced the formal end of the drilling moratorium placed in effect in May 2010, increased permitting requirements are applicable to both shallow water and deepwater drilling activities.

As a result of the restrictions imposed by the Department of Interior, we have experienced revenue declines in the areas impacted by the spill during the second half of 2010, as our customers have delayed or ceased operations, resulting in less demand for our drilling fluids and waste disposal services. During 2010, we generated approximately $44 million of revenues from the area impacted by the restrictions, including $11 million of revenue generated directly related to the Deepwater Horizon oil spill. Based on the uncertainty of the regulations on drilling in the Gulf of Mexico, we expect revenues and operating income from this region to be significantly lower in 2011, as compared to 2010 levels, for as long as the uncertainty remains. Due to the fixed nature of the majority of our operating expenses in this region, we expect any reduction in segment revenues to have a high incremental impact on segment operating income. Further, our facilities on the coast of the Gulf of Mexico may be forced to suspend operations as a result of impacts from the restrictions, which could potentially result in a reduction in revenues or an increase in our costs, including the potential impairment of long-lived assets.

In addition to the current restrictions, we cannot predict whether changes in laws and regulations concerning operations in the Gulf of Mexico, or more generally throughout the U.S. will be enacted. Significant changes in regulations regarding future exploration and production activities in the Gulf of Mexico or other government or regulatory actions could reduce drilling and production activity, or increase the costs of our services, which could have a material adverse impact on our business.

***Risks Related to our Customer Concentration and Cyclical Nature of the E&P Industry***

We derive a significant portion of our revenues from companies in the E&P industry, and our customer base is highly concentrated in major and independent oil and gas E&P companies operating in the markets that we serve. In 2010, approximately 50% of our consolidated revenues were derived from our 20 largest customers. While no single customer accounted for more than 10% of our consolidated revenues, one customer in our mats and integrated services segment accounted for 37% of segment revenues. The E&P industry is historically cyclical, with levels of activity generally affected by the following factors:

- current oil and natural gas prices and expectations about future prices
- the cost to explore for, produce and deliver oil and gas
- the discovery rate for new oil and gas reserves
- the ability of oil and gas companies to raise capital
- domestic and international political, military, regulatory and economic conditions
- government regulations regarding environmental protection, taxation, price controls and product allocation

Because of the cyclical nature of our industry and our customer concentration, our quarterly and annual operating results have fluctuated significantly in recent years and may continue to fluctuate in future periods. A prolonged decline in industry drilling rig activity or the loss of any of our large customers could materially affect the demand for our services. Because our business has high fixed costs, including significant facility and personnel expenses, downtime or low productivity due to reduced demand can have significant adverse impact on our profitability.

***Risks Related to the Availability of Raw Materials and Skilled Personnel***

Our ability to provide products and services to our customers is dependent upon our ability to obtain the raw materials and qualified personnel necessary to operate our business.

Barite is a naturally occurring mineral that constitutes a significant portion of our drilling fluids systems. We currently secure the majority of our barite ore from foreign sources, primarily China and India. The availability and cost of barite ore is dependent on factors beyond our control including power shortages, political priorities and government imposed export fees in China as well as natural disasters such as the 2008 earthquake in Sichuan Province, China. The availability and cost of barite ore is further impacted by inland transportation and ocean freight. Due to recent wide swings in world wide demand for raw materials, the cost of transportation has fluctuated

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significantly. Significant fluctuations in either the cost of raw materials, including barite ore or their transportation costs, may impact our profitability.

Our business is also highly dependent on our ability to attract and retain highly-skilled engineers, technical sales and service personnel. The market for these employees is very competitive, and if we cannot attract and retain quality personnel, our ability to compete effectively and to grow our business will be severely limited. Also a significant increase in the wages paid by competing employers could result in a reduction in our skilled labor force or an increase in our operating costs.

***Risk Related to our Market Competition***

We face competition in the Fluids Systems and Engineering business from larger companies, which compete vigorously on fluids performance and/or price. In addition, these companies have broad product and service offerings in addition to their drilling fluids. We also have smaller regional competitors competing with us mainly on price and local relationships.

Our competition in the Mats and Integrated Services business is very fragmented and competitive, with nine to ten competitors providing various forms of wooden mat products and services. In addition, we are beginning to see competition in the market for mats similar to our DuraBase™ composite mat system.

Competition in the Environmental Services market could increase as the industry continues to develop, which could put downward pressure on our margins. We also face competition from efforts by oil and gas producing customers to improve their own methods of disposal and waste elimination.

***Risks Related to the Cost and Continued Availability of Borrowed Funds***

We employ borrowed funds as an integral part of our long-term capital structure and our future success is dependent upon continued access to borrowed funds to support our operations. The availability of borrowed funds on reasonable terms is dependent on the condition of credit markets and financial institutions from which these funds are obtained. Adverse events in the financial markets, such as those experienced in recent years, may significantly reduce the availability of funds, which may have an adverse effect on our cost of borrowings and our ability to fund our business strategy. Adverse events in the financial markets may also negatively impact our customers, as many of them finance their drilling and production operations through borrowed funds. The reduced availability and increased cost of borrowing could cause our customers to reduce their spending on drilling programs, thereby reducing demand and potentially pricing for our products and services.

Our ability to meet our debt service requirements and the continued availability of funds under our existing or future credit agreements is dependent upon our ability to continue generating operating income and remain in compliance with the covenants in our credit agreements. This, in turn, is subject to the volatile nature of the E&P industry, and to competitive, economic, financial and other factors that are beyond our control.

***Risks Related to International Operations***

We have significant operations outside of the United Stated, including certain areas of Europe, North Africa, Brazil, Canada and Mexico. In 2010, these international operations generated approximately 28% of our consolidated revenues. In addition, we may seek to expand to other areas outside the United States in the future. International operations are subject to a number of risks and uncertainties, including:

difficulties and cost associated with complying with a wide variety of complex foreign laws, treaties and regulations

unexpected changes in regulatory environments or tax laws

legal uncertainties, timing delays and expenses associated with tariffs, export licenses and other trade barriers

difficulties enforcing agreements and collecting receivables through foreign legal systems risks associated with the Foreign Corrupt Practices Act and other similar U.S. laws applicable to our operations in international markets

exchange controls or other limitations on international currency movements

sanctions imposed by the U.S. government to prevent us from engaging in business in certain countries

inability to preserve certain intellectual property rights in the foreign countries in which we operate

our inexperience in new international markets

fluctuations in foreign currency exchange rates

political and economic instability

In early 2011, several international markets in which we operate, including Tunisia, Egypt and Libya experienced political unrest, which may negatively impact our operating results as well as oil and gas markets generally.

***Risks Related to Legal and Regulatory Matters, Including Environmental Regulations***

We are responsible for complying with numerous federal, state and local laws, regulations and policies that govern environmental protection, zoning and other matters applicable to our current and past business activities, including the activities of our former subsidiaries. Failure to remain compliant with these laws and regulations may result in fines, penalties, costs of cleanup of contaminated sites and site closure obligations, or other expenditures. Further, any changes in the current legal and regulatory environment could impact industry activity and the demands for our products and services, the scope of products and services that we provide, or our cost structure required to provide our products and services.

We believe that the demand for our services in the Environmental Services business is directly related to regulation of E&P waste. In particular, E&P waste is currently exempt from the principal federal statute governing the handling of hazardous waste. In recent years, proposals have been made to rescind this exemption. If the exemption covering this type of E&P waste is repealed or modified, or if the regulations interpreting the rules regarding the treatment or disposal of E&P waste or NORM waste were changed, it could have a material adverse effect on this business.

The markets for our products and services are dependent on the continued exploration for and production of fossil fuels (predominantly oil and natural gas). In December 2009, the U.S. Environmental Protection Agency ( EPA ) published findings that the emissions of carbon dioxide, methane and other greenhouse gases are contributing to the warming of the Earth s atmosphere and other climatic changes, presenting an endangerment to human health and the environment. Further, federal legislation to reduce emissions of greenhouse gases has been considered and many states have taken measures to reduce greenhouse gas emissions. The EPA has also proposed regulations that could potentially limit greenhouse gas emissions and impose reporting obligations on large greenhouse gas emission sources. To the extent that laws and regulations enacted as part of climate change legislation increase the costs of drilling for or producing such fossil fuels, or reduce the demand for fossil fuels, such legislation could have a material adverse impact on our operations and profitability.

***Risks Related to the Inherent Limitations of Insurance Coverage***

While we maintain liability insurance, this insurance is subject to coverage limitations. Specific risks and limitations of our insurance coverage include the following:

- self-insured retention limits on each claim, which are our responsibility
- exclusions for certain types of liabilities and limitations on coverage for damages resulting from pollution
- coverage limits of the policies, and the risk that claims will exceed policy limits
- the financial strength and ability of our insurance carriers to meet their obligations under the policies

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In addition, our ability to continue to obtain insurance coverage on commercially reasonable terms is dependent upon a variety of factors impacting the insurance industry in general, which are outside our control.

Any of the issues noted above, including insurance cost increases, uninsured or underinsured claims, or the inability of an insurance carrier to meet their financial obligations could have a material adverse effect on our profitability.

***Risks Related to Potential Impairments of Long-lived Intangible Assets***

As of December 31, 2010, our consolidated balance sheet includes $62.3 million in goodwill and $13.1 million of intangible assets, net. Goodwill and indefinite-lived intangible assets are tested for impairment annually, or more frequently as the circumstances require, using a combination of market multiple and discounted cash flow approaches. In completing this annual evaluation during the fourth quarter of 2010, we determined that no reporting unit has a fair value below its net carrying value, and therefore, no impairment is required. However, if the financial performance or future projections for our operating segments deteriorate from current levels, a future impairment of goodwill or indefinite-lived intangible assets may be required, which would negatively impact our financial results, in the period of impairment.

***Risks Related to Technological Developments in our Industry***

The market for our products and services is characterized by continual technological developments that generate substantial improvements in product functions and performance. If we are not successful in continuing to develop product enhancements or new products that are accepted in the marketplace or that comply with industry standards, we could lose market share to competitors, which would negatively impact our results of operations and financial condition.

We hold U.S. and foreign patents for certain of our drilling fluids components and our mat systems. In our Environmental Services business, we also hold U.S. patents on certain aspects of our system to process and dispose of E&P waste, including E&P waste that is contaminated with NORM. However, these patents are not a guarantee that we will have a meaningful advantage over our competitors, and there is a risk that others may develop systems that are substantially equivalent to those covered by our patents. If that were to happen, we would face increased competition from both a service and a pricing standpoint. In addition, costly and time-consuming litigation could be necessary to enforce and determine the scope of our patents and proprietary rights. It is possible that future innovation could change the way companies drill for oil and gas, reduce the amount of waste that is generated from drilling activities or create new methods of disposal or new types of drilling fluids. This could reduce the competitive advantages we may derive from our patents and other proprietary technology.

***Risks Related to Severe Weather, Particularly in the U.S. Gulf Coast***

Approximately 25% of our consolidated revenue in 2010 was generated in market areas in the U.S. Gulf of Mexico and related near-shore areas, which are susceptible to hurricanes and other adverse weather events, such as those which occurred in 2005 and 2008. These weather events can disrupt our operations and result in damage to our properties, as well as negatively impact the activity and financial condition of our customers. Our business may be adversely affected by these and other negative effects of future hurricanes or other adverse weather events.

***Risks Related to Capital Investments and Business Acquisitions***

Our ability to successfully execute our business strategy will depend, among other things, on our ability to make capital investments and acquisitions which provide the Company with financial benefits. Our 2011 capital expenditures are expected to be approximately $30-$40 million, including investments in a new enterprise-wide operational and financial system, additional investments in our manufacturing and research and development facilities, as well as additions to our composite mat rental fleet. Further, on March 4, 2011, we entered into a definitive agreement to acquire the drilling fluids and related engineering services unit of Rheochem PLC, a publicly-traded Australian-based oil and gas company. These anticipated investments, along with any future investments, are subject to a number of risks and uncertainties, including:

- incorrect assumptions regarding the future benefits or results from our capital investments, any acquired operations or assets
- failure to complete a planned acquisition transaction or to successfully integrate the operations or management of any acquired businesses or assets in a timely manner
- diversion of management s attention from existing operations or other priorities
- unanticipated disruptions to our business associated with the implementation of our enterprise-wide operational and financial system
- failure of new enterprise-wide operational and financial system to function as intended

Any of the factors above could have an adverse effect on our business, financial condition or results of operations.

***Risks Related to Fluctuations in the Market Value of our Common Stock***

The market price of our common stock may fluctuate due to a number of factors, including the general economy, stock market conditions, general trends in the E&P industry, announcements made by us or our competitors, and variations in our operating results. Investors may not be able to predict the timing or extent of these fluctuations.

## ITEM 1B. *Unresolved Staff Comments*

None

## ITEM 2. *Properties*

We lease office space to support our operating segments as well as our corporate offices. This leased space is located in The Woodlands, Houston and Port Arthur, Texas, Lafayette, Louisiana, Calgary, Alberta, and Rome, Italy. We also own office space in Oklahoma City, Oklahoma. All owned properties serve as collateral to our Amended and Restated Credit Agreement ( Credit Amendment ).

*Fluids Systems & Engineering.* We own seven warehouse facilities and have 20 leased warehouses and five contract warehouses to support our customers and operations in the U.S. We own two warehouse facilities in Western Canada to support our Canadian operations. Additionally, we lease 16 warehouses and own one warehouse in the Mediterranean region and lease six warehouses in Brazil to support our international operations.

We operate four specialty product grinding facilities in the U.S. These facilities are located in Houston, Texas on approximately 18 acres of owned land, in New Iberia, Louisiana on 13.7 acres of leased land, in Corpus Christi, Texas on six acres of leased land, and in Dyersburg, Tennessee on 13.2 acres of owned land.

*Mats & Integrated Services.* We own approximately 44,000 square feet of office and warehouse space on nine acres of land in Carencro, Louisiana, which houses manufacturing facilities for this segment. We also lease five sites in Pennsylvania, Texas, Louisiana and Colorado which serve as bases for our well site service activities. Additionally, we own five facilities which are located in Louisiana, Texas and Colorado to support field operations.

*Environmental Services.* We lease a 4.6 acre E&P waste processing and transfer facility in Port Arthur, Texas. We own three injection disposal sites located in Jefferson County, Texas with two of those properties immediately adjacent to each other, one 47 acre site for NORM disposal with five caprock injection wells and a 140 acre site for our industrial injection operation with two caprock injection wells. The remaining site consists of our nonhazardous oilfield waste processing and injection operations. This site is on 400+ acres and has 11 caprock injection wells and a disposal cavern. In addition, we own three facilities in West Texas on a total of approximately 100 acres of land. Additionally, we have six leased receiving facilities to support our injection and waste disposal services.

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**ITEM 3.** ***Legal Proceedings***

On March 12, 2007, we were advised that the SEC opened a formal investigation into the matters disclosed in Amendment No. 2 to our Annual Report on Form 10-K/A filed on October 10, 2006. On July 16, 2009, the SEC filed a civil lawsuit against our former Chief Financial Officer, the former Chief Financial Officer of our Soloco business unit and one former vendor in connection with the transactions that were described in the Amended Form 10-K/A. Subsequently, the SEC announced that it reached settlement of its claims against all three defendants. We were not named as a defendant in this lawsuit. In October 2010, the SEC informed us that they have completed their investigation associated with these matters.

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. In the opinion of management, any liability in these matters should not have a material effect on our consolidated financial statements.

**ITEM 4.** ***[Removed and Reserved]***

## PART II

**ITEM 5.** ***Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is traded on the New York Stock Exchange under the symbol NR.

The following table sets forth the range of the high and low sales prices for our common stock for the periods indicated:

| **Period** | **High** | **Low** |
|---|---|---|
| 2010 | | |
| 4th Quarter | $ 8.90 | $ 5.12 |
| 3rd Quarter | $ 9.50 | $ 5.97 |
| 2nd Quarter | $ 8.05 | $ 5.18 |
| 1st Quarter | $ 5.85 | $ 3.60 |
| 2009 | | |
| 4th Quarter | $ 4.56 | $ 2.56 |
| 3rd Quarter | $ 3.51 | $ 2.22 |
| 2nd Quarter | $ 3.47 | $ 2.22 |
| 1st Quarter | $ 4.68 | $ 2.30 |

As of February 1, 2011, we had 1,822 stockholders of record as determined by our transfer agent.

During 2008, our Board of Directors approved a plan authorizing our repurchase of up to $25 million of outstanding common stock, of which $9.9 million remains available. No repurchases were made under this plan during 2009 or 2010. During 2010 and 2009 we repurchased $0.2 million and $0.3 million of shares surrendered in lieu of taxes under vesting of restricted stock awards, respectively. Our Board of Directors currently intends to retain earnings for use in our business. We have not paid any dividends during the two 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 credit facilities contain covenants which limit the payment of dividends on our common stock.

The following table details our repurchases of shares of our common stock for the three months ended December 31, 2010:

| **Period** | **Total Number of Shares Purchased** | **Average Price 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** |
|---|---|---|---|---|

| | | | |
|---|---|---|---|
| October 1 31, 2010 | $ | $ | 9.9 million |
| November 1 30, 2010 | | $ | 9.9 million |
| December 1 31, 2010 | | $ | 9.9 million |
| Total | $ | | |

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## Performance Graph

The following graph reflects a comparison of the cumulative total stockholder return of our common stock from January 1, 2006 through December 31, 2010, with the New York Stock Exchange Market Value Index, a broad equity market index, and the Hemscott Oil & Gas Equipment/Services Index, an industry group index. The graph assumes the investment of $100 on January 1, 2006 in our common stock and each index and the reinvestment of all dividends, if any. This information shall be deemed furnished not filed, in this Form 10-K, and shall not be deemed incorporated by reference into any filing under the Securities Exchange Act of 1933, or the Securities Act of 1934, except to the extent we specifically incorporate it by reference.

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**ITEM 6. *Selected Financial Data***

The selected consolidated historical financial data presented below for the five years ended December 31, 2010 is derived from our consolidated financial statements and is not necessarily indicative of results to be expected in the future.

The following data should be read in conjunction with the consolidated financial statements and notes thereto and with Management s Discussion and Analysis of Financial Condition and Results of Operations in Items 7 and 8 below.

| | As of and for the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (In thousands, except share data) | | | | |
| **Consolidated Statements of Operations:** | | | | | |
| Revenues | $ 715,954 | $ 490,275 | $ 858,350 | $ 671,207 | $ 642,317 |
| Operating income (loss) | 78,004 | (15,325) | 71,496 | 66,403 | 3,468 |
| Interest expense | 10,267 | 9,334 | 10,881 | 20,251 | 19,546 |
| Income (loss) from continuing operations | $ 41,626 | $ (20,573) | $ 39,300 | $ 31,763 | $ (12,306) |
| Loss from discontinued operations, net of tax | | | (842) | (3,488) | (19,975) |
| Loss from disposal of discontinued operations, net of taxes | | | | (1,613) | |
| Net income (loss) | $ 41,626 | $ (20,573) | $ 38,458 | $ 26,662 | $ (32,281) |
| Net income (loss) per common share (basic): | | | | | |
| Income (loss) from continuing operations | $ 0.47 | $ (0.23) | $ 0.44 | $ 0.35 | $ (0.14) |
| Net income (loss) per common share | $ 0.47 | $ (0.23) | $ 0.43 | $ 0.30 | $ (0.36) |
| Net income (loss) per common share (diluted): | | | | | |
| Income (loss) from continuing operations | $ 0.46 | $ (0.23) | $ 0.44 | $ 0.35 | $ (0.14) |
| Net income (loss) per common share | $ 0.46 | $ (0.23) | $ 0.43 | $ 0.29 | $ (0.36) |
| **Consolidated Balance Sheet Data:** | | | | | |
| Working capital | $ 329,371 | $ 163,110 | $ 253,136 | $ 214,890 | $ 215,364 |
| Total assets | 737,342 | 585,114 | 713,679 | 643,493 | 629,449 |
| Foreign bank lines of credit | 1,458 | 6,901 | 11,302 | 7,297 | 10,938 |
| Current maturities of long-term debt | 148 | 10,319 | 10,391 | 11,565 | 4,058 |
| Long-term debt, less current portion | 172,987 | 105,810 | 166,461 | 158,616 | 198,047 |
| Stockholders equity | 417,347 | 368,022 | 377,882 | 360,664 | 323,143 |

| | | | | | |
|---|---|---|---|---|---|
| **Consolidated Cash Flow Data:** | | | | | |
| Net cash provided by operations | $ 31,476 | $ 88,819 | $ 28,687 | $ 68,171 | $ 26,600 |
| Net cash used in investing activities | (10,549) | (17,144) | (23,168) | (40,292) | (30,298) |
| Net cash provided (used in) by financing activities | 50,621 | (66,265) | (2,062) | (35,649) | 8,573 |

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## ITEM 7. *Management s Discussion and Analysis of Financial Condition and Results of Operation*

The following discussion of our financial condition, results of operations, liquidity and capital resources should be read together with our Consolidated Financial Statements and Notes to Consolidated Financial Statements included in Item 8 of this Annual Report.

### Overview

We are a diversified oil and gas industry supplier, and have three reportable segments: Fluids Systems and Engineering, Mats and Integrated Services, and Environmental Services. We provide these products and services principally to the oil and gas exploration ( E&P ) industry domestically in the U.S. Gulf Coast, West Texas, Oklahoma, East Texas, North Louisiana, Rocky Mountains, and Northeast regions, as well as internationally in certain areas of Europe, North Africa, Brazil, Canada and Mexico. Further, we are expanding our presence outside the E&P sector through our Mats and Integrated Services segment, where we are marketing to utilities, municipalities and government sectors, both domestically and internationally.

Our North American operations generated 76% of total reported revenues for 2010, and our consolidated revenues by segment are as follows:

| | 2010 (In thousands) |
|---|---|
| Fluids systems and engineering | $ 597,795 |
| Mats and integrated services | 69,397 |
| Environmental services | 48,762 |
| Total revenues | $ 715,954 |

Our operating results depend, to a large extent, on oil and gas drilling activity levels in the markets we serve, as well as the depth of drilling, which governs the revenue potential of each well. The drilling activity in turn, depends on oil and gas commodity pricing, inventory levels and demand, and more recently, regulatory actions affecting operations in the Gulf of Mexico.

Rig count data is the most widely accepted indicator of drilling activity. Key average North American rig count data for the last three years ended December 31 is as follows:

| | Year Ended December 31, | | | 2010 vs 2009 | | 2009 vs 2008 | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | Count | % | Count | % |
| U.S. Rig Count | 1,546 | 1,087 | 1,879 | 459 | 42% | (792) | (42)% |
| Canadian Rig Count | 348 | 223 | 382 | 125 | 56% | (159) | (42)% |
| Total | 1,894 | 1,310 | 2,261 | 584 | 45% | (951) | (42%) |

Source: Baker Hughes Incorporated

North American drilling activity declined dramatically during 2009 from the elevated levels experienced in 2008. In response to these declines, we executed cost reduction programs during 2009 including workforce reductions, reduced discretionary spending and salary reductions. As part of this cost reduction program, we reduced our North American workforce by 548 employees. As a result, operating results for 2009 include $4.5 million of charges associated with employee termination and related costs.

In April 2010, the Deepwater Horizon drilling rig sank in the Gulf of Mexico after an explosion and fire, resulting in the discharge of oil from the well. Following the Deepwater Horizon oil spill, the Department of Interior of the U.S. government took several actions aimed at restricting and temporarily prohibiting certain drilling activity in the Gulf of Mexico. While the Department of Interior has since announced the formal end of the drilling moratorium placed in effect in May 2010, increased permitting requirements are applicable to both shallow water and deepwater drilling activities. As a result, the near-term outlook for drilling activity in the Gulf of Mexico remains uncertain.

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We generated approximately $44 million of revenues within the areas of the Gulf of Mexico impacted by the restrictions during 2010, including $11 million of revenue generated directly related to the Deepwater Horizon oil spill. We expect revenues generated from the affected areas of the Gulf of Mexico to be significantly lower in 2011, particularly in the environmental services business, as compared to the levels achieved in 2010.

**Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

**Consolidated Results of Operations**

Summarized results of operations for the year ended December 31, 2010 compared to the year ended December 31, 2009 are as follows:

| | Year Ended December 31, | | 2010 vs 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| | (In thousands) | | | |
| Revenues | $ 715,954 | $ 490,275 | $ 225,679 | 46% |
| Cost of revenues | 576,920 | 447,624 | 129,296 | 29% |
| Selling, general and administrative expenses | 64,157 | 61,205 | 2,952 | 5% |
| Other operating income, net | (3,127) | (3,229) | 102 | (3)% |
| Operating income (loss) | 78,004 | (15,325) | 93,329 | NM |
| Foreign currency exchange gain | (1,134) | (1,870) | 736 | (39)% |
| Interest expense | 10,267 | 9,334 | 933 | 10% |
| Income (loss) from continuing operations before income taxes | 68,871 | (22,789) | 91,660 | NM |
| Provision for income taxes | 27,245 | (2,216) | 29,461 | NM |
| Income (loss) from continuing operations | $ 41,626 | $ (20,573) | $ 62,199 | NM |

NM not meaningful

***Revenues***

Revenues increased 46% to $716.0 million in 2010, compared to $490.3 million in 2009. This increase in revenues is primarily driven by the 42% improvement in the U.S. rig count, along with our expansion into new markets and market share gains, including increased revenues of $49.0 million from East Texas and North Louisiana, $40.9 million from the Northeast U.S. region and $35.8 million from Brazil. Additional information regarding the change in revenues is provided within the operating segment results below.

***Cost of Revenues***

Cost of revenues increased 29% to $576.9 million in 2010, as compared to $447.6 million in 2009. The increase is primarily driven by the 46% increase in revenues, partially offset by a change in revenue mix, along with the benefits of the 2009 cost reduction programs, workforce reductions and non-recurring employee termination and related costs recorded in 2009. Cost of revenues as a percentage of revenues was 81% in 2010 compared to 91% in 2009. 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 $3.0 million to $64.2 million in 2010 from $61.2 million for 2009. The increase is primarily attributable to a $5.2 million increase in performance-based employee incentive costs in 2010, partially offset by the impact of cost reduction programs implemented during 2009.

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### *Other Operating Income, Net*

Other income, net was $3.1 million in 2010, reflecting $0.9 million of proceeds from insurance claims resulting from Hurricane Ike in 2008 and $2.2 million of net proceeds from a lawsuit settlement, both within our Mats and Integrated Services business. Other income, net was $3.2 million during 2009, including $2.3 million of proceeds from business interruption insurance claims within our Environmental Services business.

### *Foreign Currency Exchange*

Foreign currency exchange was a $1.1 million gain in 2010, compared to a $1.9 million gain in 2009, reflecting the impact of currency fluctuations on our non-functional currency denominated assets and liabilities within our foreign operations.

### *Interest Expense*

Interest expense increased to $10.3 million in 2010, compared to $9.3 million in 2009. 2010 includes a $1.2 million charge for the termination of our interest rate swap agreements associated with the term loan. The remaining interest expense was $9.1 million in 2010, reflecting a $0.2 million decrease from 2009. See *Liquidity and Capital Resources* below for additional information.

### *Provision for Income Taxes*

The provision for income taxes for 2010 was a $27.2 million expense, reflecting an effective tax rate of 39.6%, compared to a $2.2 million benefit for 2009, reflecting an effective tax rate of 9.7%. The low effective tax benefit rate in 2009 is primarily due to losses generated in certain foreign countries for which the recording of a tax benefit is not permitted, as well as the recording of valuation allowances against a previously recognized net operating loss carryforward tax asset in Canada, which serve to reduce the effective tax benefit rate in the period.

## Operating Segment Results

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

| | Year Ended December 31, | | 2010 vs 2009 | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| | (In thousands) | | | |
| **Revenues** | | | | |
| Fluids systems and engineering | $ 597,795 | $ 409,450 | $ 188,345 | 46% |
| Mats and integrated services | 69,397 | 37,476 | 31,921 | 85% |
| Environmental services | 48,762 | 43,349 | 5,413 | 12% |
| Total revenues | $ 715,954 | $ 490,275 | $ 225,679 | 46% |
| **Operating income (loss)** | | | | |
| Fluids systems and engineering | $ 56,234 | $ 1,994 | $ 54,240 | |
| Mats and integrated services | 26,684 | (7,840) | 34,524 | |

| | | | |
|---|---|---|---|
| Environmental services | 13,447 | 7,711 | 5,736 |
| Corporate office | (18,361) | (17,190) | (1,171) |
| **Operating income (loss)** | $ 78,004 | $ (15,325) | $ 93,329 |
| **Segment operating margin** | | | |
| Fluids systems and engineering | 9.4% | 0.5% | |
| Mats and integrated services | 38.5% | (20.9)% | |
| Environmental services | 27.6% | 17.8% | |

## Fluids Systems and Engineering

### *Revenues*

Total revenues for this segment consisted of the following:

| | Year Ended December 31, 2010 | Year Ended December 31, 2009 | 2010 vs 2009 $ | 2010 vs 2009 % |
|---|---|---|---|---|
| | (In thousands) | | | |
| Drilling fluids and engineering | $ 330,425 | $ 207,954 | $ 122,471 | 59% |
| Completion fluids and services | 45,610 | 27,656 | 17,954 | 65% |
| Industrial minerals | 49,092 | 32,440 | 16,652 | 51% |
| Total North America | 425,127 | 268,050 | 157,077 | 59% |
| Mediterranean | 111,416 | 115,926 | (4,510) | (4)% |
| Brazil | 61,252 | 25,474 | 35,778 | 140% |
| Total | $ 597,795 | $ 409,450 | $ 188,345 | 46% |

North America revenues increased 59% to $425.1 million for 2010, as compared to $268.0 million for 2009. Of this $157.1 million increase, drilling fluids and engineering revenues increased $122.5 million, largely attributable to the 42% increase in the U.S. rig count, along with expansion in the Northeast U.S. region and market share gains in East Texas and North Louisiana. Our completion fluids and services activity was up 65% and our wholesale industrial minerals revenues were up 51%, both driven by the increased activity levels.

Internationally, revenues were up 22% to $172.7 million for 2010, as compared to $141.4 million for 2009, primarily due to a $35.8 million increase from Brazil resulting from continued market share gains. Mediterranean revenue is down 4% primarily due to the impact of the strengthening U.S. dollar, as revenues were relatively unchanged in local currency terms.

### *Operating Income*

Operating income for this segment was $56.2 million in 2010, reflecting an improvement of $54.2 million from a $2.0 million operating profit in 2009. Substantially all of this improvement was provided by the North American operations, which generated a $51.5 million improvement in operating income. This improvement is primarily attributable to the incremental profit from the $157.1 million increase in revenues described above, combined with operating expense reductions from programs implemented during 2009, and $3.1 million of charges in the 2009 period associated with employee terminations. Operating income from international operations increased $2.7 million, including a $2.6 million increase in Brazil, as a result of higher revenues in 2010.

Our consolidated balance sheet as of December 31, 2010 includes $12.8 million of long-lived assets within our Brazil operation, of which $12.3 million consists of property, plant and equipment. In 2010, our Brazil operation generated a full year operating loss of $3.1 million. While the operating results from this operation are expected to improve in the future and management currently believes that the carrying value of the long-lived assets is recoverable, an impairment of the long-lived assets in a future period is possible if current expectations change and management s outlook for the Brazil operation deteriorates.

In early 2011, several international markets in which we operate, including Tunisia, Egypt and Libya experienced political unrest, which may negatively impact our operating results as compared to 2010. During 2010, revenues from these three countries along with Algeria represented approximately 12% of total segment revenues, with no individual country representing more than 6% of total segment revenues.

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## Mats and Integrated Services

### *Revenues*

Total revenues for this segment consisted of the following:

| | Year Ended December 31, 2010 | Year Ended December 31, 2009 | 2010 vs 2009 $ | 2010 vs 2009 % |
|---|---|---|---|---|
| | (In thousands) | | | |
| Mat rental and integrated services | $ 45,945 | $ 24,944 | $ 21,001 | 84% |
| Mat sales | 23,452 | 12,532 | 10,920 | 87% |
| Total | $ 69,397 | $ 37,476 | $ 31,921 | 85% |

The $21.0 million increase in mat rental and integrated services revenue is primarily driven by a $25.6 million increase in mat rentals in the Northeast U.S. region, partially offset by a $3.4 million decline in rental and service revenues in Colorado and a $1.2 million decrease in the Gulf Coast region. Mat sales increased $10.9 million, as demand for these products has improved from the E&P and other industries, following the economic downturn in 2009.

### *Operating Income*

Segment operating income increased by $34.5 million to $26.7 million for 2010. This improvement in operating income is primarily attributable to the $31.9 million increase in revenues, along with $4.4 million in operating expense reductions following 2009 cost reduction programs. Fiscal 2009 included $1.0 million of employee termination costs and $1.2 million of non-cash write-downs of inventory. Operating income in 2010 benefited from a higher mix of mat rental activity. Incremental margins on mat rentals are stronger than mat sales or service activities, due to the fixed nature of operating expenses, including depreciation expense on the rental mat fleet. As a result, we experienced significantly higher operating margins in 2010, as compared to 2009. Additionally, 2010 included $3.1 million of other income reflecting proceeds from insurance claims and the settlement of a lawsuit against a former vendor.

## Environmental Services

### *Revenues*

Total revenues for this segment consisted of the following:

| | Year Ended December 31, 2010 | Year Ended December 31, 2009 | 2010 vs 2009 $ | 2010 vs 2009 % |
|---|---|---|---|---|
| | (In thousands) | | | |
| E&P waste Gulf Coast | $ 36,516 | $ 29,313 | $ 7,203 | 25% |

| | | | | |
|---|---|---|---|---|
| E&P waste West Texas | 2,653 | 3,146 | (493) | (16)% |
| NORM and industrial waste | 9,593 | 10,890 | (1,297) | (12)% |
| Total | $ 48,762 | $ 43,349 | $ 5,413 | 12% |

Environmental services revenues increased 12% to $48.8 million in 2010, as compared to 2009. The $5.4 million increase in revenues from the prior year included $10.5 million of revenues from the Deepwater Horizon oil spill. Revenues from non oil spill activities declined by $5.1 million in 2010, primarily reflecting the impact of U.S. government restrictions on drilling activity in the Gulf of Mexico.

***Operating Income***

Environmental services operating income increased by $5.7 million in 2010, partially driven by the $5.4 million increase in revenues compared to 2009. In addition, operating expenses are down $2.7 million in 2010, including a $2.4 million reduction in equipment rental expenses, following the non-renewal of barge leases in 2009. Operating income in 2009 includes $2.3 million of proceeds from business interruption insurance claims.

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In addition to the $10.5 million of revenues generated directly from the Deepwater Horizon oil spill, approximately 40% of 2010 revenues for this segment were derived from areas of the Gulf of Mexico affected by the U.S. government restrictions. We expect significant declines in revenues generated directly from the Deepwater Horizon oil spill and in non-oil spill revenues generated in the area affected by the U.S. government restrictions in 2011. Due to the fixed nature of the majority of our operating expenses in this segment, we expect any reduction in segment revenues to have a high incremental impact on segment operating income.

**Year Ended December 31, 2009 Compared to Year Ended December 31, 2008**

**Consolidated Results of Operations**

Summarized results of operations for the year ended December 31, 2009 compared to the year ended December 31, 2008 are as follows:

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | 2009 vs 2008 $ | 2009 vs 2008 % |
|---|---|---|---|---|
| | (In thousands) | | | |
| Revenues | $ 490,275 | $ 858,350 | $ (368,075) | (43)% |
| Cost of revenues | 447,624 | 703,430 | (255,806) | (36)% |
| Selling, general and administrative expenses | 61,205 | 81,394 | (20,189) | (25)% |
| Other operating (income) expense, net | (3,229) | 2,030 | (5,259) | (259)% |
| Operating (loss) income | (15,325) | 71,496 | (86,821) | (121)% |
| Foreign currency exchange (gain) loss | (1,870) | 1,269 | (3,139) | (247)% |
| Interest expense | 9,334 | 10,881 | (1,547) | (14)% |
| (Loss) income from continuing operations before income taxes | (22,789) | 59,346 | (82,135) | (138)% |
| Provision for income taxes | (2,216) | 20,046 | (22,262) | (111)% |
| (Loss) income from continuing operations | $ (20,573) | $ 39,300 | $ (59,873) | (152)% |

***Revenues***

Revenues were $490.3 million in 2009, reflecting a 43% decline from the $858.4 million reported in 2008. This decline in revenues is primarily driven by the 42% decline in North American drilling activity, as previously noted. North American revenues accounted for 71% and 84% of total revenues for 2009 and 2008, respectively. Additional information regarding these declines is provided within the discussions of the operating segment results below.

***Cost of Revenues***

Cost of revenues were $447.6 million in 2009, reflecting a 36% decline from the $703.4 million reported in 2008. This decline is primarily driven by the 42% decline in North American drilling activity, as previously noted above. Cost of revenues as a percentage of revenues was 91% in 2009 compared to 82% in 2008. Additional information regarding these declines is provided within the discussions of operating segment results below.

***Selling, General and Administrative expenses***

Selling, general and administrative expenses declined $20.2 million to $61.2 million in 2009 from $81.4 million in 2008. The decrease includes $6.7 million in fluids systems and engineering, $3.3 million in mat and integrated services, $0.7 million in environmental services, and $9.5 million in the corporate office. The decline in corporate office spending includes $4.3 million of legal and selling costs associated with the abandoned sale of the environmental services business along with $2.2 million of expenses associated with the arbitration and settlement of a lawsuit with our former Chief Executive Officer, both which were recorded in 2008. The remainder of the decrease in all

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segments is attributable to the impact of cost reduction programs implemented during 2009, as well as lower performance-based employee incentive costs in 2009.

***Other Operating (Income) Expense, Net***

Other income, net was $3.2 million in 2009 compared to $2.0 million of other expense, net in 2008. The 2009 results include $2.3 million of income associated with the settlement of business interruption insurance claims within our environmental services business, resulting from hurricanes and storms in 2008. The 2008 results include a $2.6 million charge to write-down certain disposal assets within the Environmental Services segment, following the abandoned sale of the business in the fourth quarter of 2008.

***Interest Expense***

Interest expense totaled $9.3 million in 2009 compared to $10.9 million in 2008. The decrease in interest expense is attributable to lower debt levels, as total outstanding debt was $123.0 million and $188.2 million at December 31, 2009 and 2008, respectively. Our weighted average borrowing rate under our credit facilities increased to 5.72% at December 31, 2009 compared to a weighted average borrowing rate of 3.46% at December 31, 2008. In July 2009, we entered into the First Amendment which included adjustments in interest rates under our credit facility.

***Provision for Income taxes***

The provision for income taxes for 2009 was a $2.2 million benefit, reflecting an income tax rate of 9.7%, compared to $20.0 million of expense for 2008, reflecting an income tax rate of 33.8%. The low effective tax rate in 2009 is primarily due to current year losses generated in certain foreign countries, for which recording a tax benefit is not permitted, as well as the recording of valuation allowances against a previously recognized net operating loss carryforward tax asset in Canada, which serve to reduce the effective tax benefit rate in the period.

**Operating Segment Results**

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

| | Year Ended December 31, | | 2009 vs 2008 | |
|---|---|---|---|---|
| | 2009 | 2008 | $ | % |
| | | (In thousands) | | |
| **Revenues** | | | | |
| Fluids systems and engineering | $ 409,450 | $ 706,288 | $ (296,838) | (42)% |
| Mats and integrated services | 37,476 | 89,654 | (52,178) | (58)% |
| Environmental services | 43,349 | 62,408 | (19,059) | (31)% |
| Total revenues | $ 490,275 | $ 858,350 | $ (368,075) | (43)% |
| **Operating (loss) income** | | | | |
| Fluids systems and engineering | $ 1,994 | $ 87,249 | $ (85,255) | |
| Mats and integrated services | (7,840) | 1,846 | (9,686) | |
| Environmental services | 7,711 | 9,031 | (1,320) | |
| Corporate office | (17,190) | (26,630) | 9,440 | |

| | | | |
|---|---|---|---|
| **Operating (loss) income** | $ (15,325) | $ 71,496 | $ (86,821) |
| **Segment operating margin** | | | |
| Fluids systems and engineering | 0.5% | 12.4% | |
| Mats and integrated services | (20.9)% | 2.1% | |
| Environmental services | 17.8% | 14.5% | |

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## Fluids Systems and Engineering

### *Revenues*

Total revenues for this segment consisted of the following:

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | 2009 vs 2008 $ | 2009 vs 2008 % |
|---|---|---|---|---|
| | (In thousands) | | | |
| Drilling fluids and engineering | $ 207,954 | $ 411,632 | $ (203,678) | (49)% |
| Completion fluids and services | 27,656 | 88,978 | (61,322) | (69)% |
| Industrial minerals | 32,440 | 67,235 | (34,795) | (52)% |
| Total North America | 268,050 | 567,845 | (299,795) | (53)% |
| Mediterranean | 115,926 | 123,174 | (7,248) | (6)% |
| Brazil | 25,474 | 15,269 | 10,205 | 67% |
| Total | $ 409,450 | $ 706,288 | $ (296,838) | (42)% |

North America revenues decreased 53% to $268.1 million in 2009, as compared to $567.8 million in 2008. Drilling fluids and engineering revenues decreased 49%, which is largely attributable to the 42% decline in industry drilling activity noted above, along with increased pricing pressure resulting from the depressed activity levels. North American completion fluids and services and wholesale industrial minerals revenues were down a combined 62%, also driven by the lower industry activity and pricing pressure.

Mediterranean revenues decreased 6% in 2009 compared to 2008, due to the impact of the strengthening US dollar, as revenue levels increased 4% in local currency terms from 2008 to 2009. Brazil revenues increased 67% to $25.5 million in 2009, reflecting the ramp-up in activity under contracts entered into during 2008.

### *Operating Income*

Operating income for this segment decreased $85.3 million in 2009 compared to 2008, on a $296.8 million decrease in revenues. The majority of this decline is attributable to the North American operations, which generated an $82.2 million decline in operating income on a $299.8 million decrease in revenues. This decrease in operating income is the result of the decline in North American drilling activity in 2009, and the related increase in pricing pressure from competition. Further, the benefits of cost reduction initiatives taken during 2009 had limited impact on full year 2009 results due to the timing of the actions, which resulted in only partial year benefits to 2009, along with $3.1 million of charges associated with employee termination and related costs, as the North American workforce of this business was reduced by 374 employees during this period. Operating income was further negatively impacted by lower gross profit on industrial mineral sales. Following the execution of significant cost reduction programs in the first half of 2009, and the stabilization of North American rig activity during the second half of 2009, the North American operating income improved from the levels generated during the first half of the year. Specifically, North American operating income in this segment increased by $12.7 million from the first half of 2009 to the second half of 2009.

Operating income from international operations decreased $3.1 million on a $3.0 million increase in revenues. The Mediterranean region operating income increased $2.3 million during this period; however, this increase was more than offset by a $5.4 million decrease in Brazil. The 2009 operating loss in Brazil is the result of the ramp up in personnel and facility costs for this operation, in advance of future anticipated revenues under existing contracts, along with an unfavorable sales mix.

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## Mats and Integrated Services

### *Revenues*

Total revenues for this segment consisted of the following:

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | 2009 vs 2008 $ | 2009 vs 2008 % |
|---|---|---|---|---|
| | (In thousands) | | | |
| Mat rental and integrated services | $ 24,944 | $ 62,810 | $ (37,866) | (60)% |
| Mat sales | 12,532 | 26,844 | (14,312) | (53)% |
| Total | $ 37,476 | $ 89,654 | $ (52,178) | (58)% |

The $37.9 million decrease in mat rental and integrated services revenues in 2009 is primarily attributable to declines in the U.S. market served by this segment, particularly in the U.S. Gulf Coast region. The decline in revenue is further impacted by the increased pricing competition following the declines in market activity, and timing of projects from customers outside the E&P industry.

Mat sales primarily consist of export sales of composite mats to various international markets, as well as to non-oilfield industries domestically. Mat sales decreased by $14.3 million to $12.5 million in 2009 compared to 2008. The year-over-year decline is driven by reduced demand for these products from the E&P and utility industries, as well as governmental sectors in the current economic environment.

### *Operating Income*

Mats and integrated services operating income decreased by $9.7 million in 2009, on a $52.2 million decrease in revenues compared to 2008. The decrease in operating income is primarily attributable to the declines in revenues and pricing pressures, which was partially offset by cost reductions. The benefits of cost reduction initiatives taken during 2009, including workforce reductions of 150 employees, had a limited impact on the full year 2009 operating results, due to the timing of the actions, which resulted in only partial year benefits to 2009, along with $1.0 million of charges associated with employee termination costs and $1.2 million of non-cash write-downs of inventory. Of the $7.8 million operating loss generated by this segment in 2009, $8.2 million was generated during the first half of the year, during which time the cost reduction actions were being executed.

## Environmental Services

### *Revenues*

Total revenues for this segment consisted of the following:

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | 2009 vs 2008 $ | 2009 vs 2008 % |
|---|---|---|---|---|

| | (In thousands) | | | |
|---|---|---|---|---|
| E&P waste Gulf Coast | $ 29,313 | $ 45,999 | $ (16,686) | (36)% |
| E&P waste West Texas | 3,146 | 7,957 | (4,811) | (60)% |
| NORM and industrial waste | 10,890 | 8,452 | 2,438 | 29% |
| Total | $ 43,349 | $ 62,408 | $ (19,059) | (31)% |

E&P waste revenues in the U.S. Gulf Coast region decreased 36% to $29.3 million in 2009 compared to $46.0 million in 2008. Volumes processed by this region declined 47% during this period, reflective of the decline in U.S. Gulf Coast industry rig activity. This decline in volumes processed was partially offset by changes in sales mix and pricing increases.

E&P waste revenues in West Texas decreased by 60% to $3.1 million in 2009 compared to $8.0 million in 2008. The decline in revenues is driven by a 59% decrease in volumes processed during this period along with a decline in revenues from the sale of oil, which is recovered as part of the waste disposal process.

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NORM and industrial waste revenues increased by 29% to $10.9 million in 2009, compared to $8.5 million in 2008. This increase is driven by higher volumes processed, as activity levels tend to fluctuate significantly from period to period based on the timing of customer projects.

*Operating Income*

Environmental services operating income decreased by $1.3 million on a $19.1 million decline in revenues in 2009, compared to 2008. The 2009 results include $2.3 million of income associated with the settlement of business interruption insurance claims resulting from hurricanes and storms in 2008. The 2008 results include a $2.6 million charge to write-down certain disposal assets, following the abandoned sale of the business in the fourth quarter of 2008. The remaining decline of $6.2 million is attributable to the lower revenue levels, partially offset by $12.9 million of operating expense reductions, including reductions in transportation costs, personnel expenses, and rent expense following the non-renewal of barge leases during the second half of 2009.

## Liquidity and Capital Resources

Net cash provided by operating activities in 2010 totaled $31.5 million. Net income adjusted for non-cash items generated $91.0 million of cash during the period, while changes in operating assets and liabilities used $59.5 million of cash. The changes in operating assets and liabilities during the period reflected the impact of increased revenues, including $75.8 million from increases in receivables, and $8.1 million in increases in inventories, partially offset by a $2.8 million increase in accounts payable and $19.7 million in increases in accrued liabilities.

Net cash used in investing activities during in 2010 was $10.5 million, consisting primarily of capital expenditures. Net cash provided by financing activities during 2010 was $50.6 million, which includes $167.8 million of net proceeds from the issuance of unsecured Convertible Senior Notes ( Senior Notes ) and $120.6 million of net repayments of term-loans and our revolving credit facility. Additional information on these transactions is included below.

We anticipate that our working capital requirements for our operations will fluctuate with our sales activity in the near term. Our 2011 capital expenditures are expected to be approximately $30-$40 million, which includes a new enterprise-wide operational and financial system, additional investments in our manufacturing and research and development facilities, as well as additions to our composite mat rental fleet.

Our capitalization was as follows as of December 31:

| | 2010 | 2009 |
|---|---|---|
| | (In thousands) | |
| Senior Notes | $ 172,500 | $ |
| Term loan | | 30,000 |
| Revolving credit facility | | 85,000 |
| Foreign bank lines of credit | 1,458 | 6,901 |
| Other | 635 | 1,129 |
| Total | 174,593 | 123,030 |
| Stockholder s equity | 417,347 | 368,022 |
| Total capitalization | $ 591,940 | $ 491,052 |

| | | |
|---|---|---|
| Total debt to capitalization | 29.5% | 25.1% |

In October 2010, we completed the sale and issuance of Senior Notes due October 1, 2017 in the aggregate principal amount of $172.5 million. 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, beginning April 1, 2011. 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 Company 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

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adjustment in certain circumstances. Upon conversion, the Senior Notes will be settled in shares of the Company s common stock. The Company may not redeem the Senior Notes at its election prior to their maturity date.

We received net proceeds of $167.8 million from the Senior Notes iss