

NEWPARK RESOURCES INC

Form 10-Q

August 03, 2007

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

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

**For the quarterly period ended June 30, 2007**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission File No. 1-2960**

**Newpark Resources, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**72-1123385**

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

**2700 Research Forest Drive, Suite 100**

**The Woodlands, Texas**

(Address of principal executive offices)

**77381**

(Zip Code)

**(281) 362-6800**

(Registrant's telephone number, including area code)

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

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

**NEWPARK RESOURCES, INC.**  
**INDEX TO QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE THREE AND SIX MONTHS ENDED**  
**June 30, 2007**

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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

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

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

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



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

(In thousands, except share data)	June 30, 2007 (Unaudited)	December 31, 2006
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 3,483	\$ 12,974
Receivables, net	156,681	154,443
Inventories	107,464	108,129
Deferred tax asset	26,052	22,970
Prepaid expenses and other current assets	18,207	12,878
Assets of discontinued operations	9,023	15,459
<b>Total current assets</b>	<b>320,910</b>	<b>326,853</b>
Property, plant and equipment, net	223,588	220,827
Goodwill	56,013	55,143
Deferred tax asset		5,348
Other intangible assets, net	11,038	11,623
Other assets	6,541	7,875
	<b>\$ 618,090</b>	<b>\$ 627,669</b>

**LIABILITIES AND STOCKHOLDERS EQUITY****Current liabilities:**

Foreign bank lines of credit	\$ 4,546	\$ 10,938
Current maturities of long-term debt	6,383	4,208
Accounts payable	53,412	43,793
Accrued liabilities	36,350	42,692
Liabilities of discontinued operations	844	364

**Total current liabilities**

101,535	101,995
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Long-term debt, less current portion	166,040	198,186
Deferred tax liability	4,567	
Other non-current liabilities	4,210	4,345

**Total liabilities**

276,352	304,526
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**Stockholders equity:**

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

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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

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

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

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**Table of Contents****Newpark Resources, Inc.  
Consolidated Statements of Comprehensive Income  
(Unaudited)**

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

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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

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

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

See Accompanying Notes to Unaudited Consolidated Condensed Financial Statements

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**NEWPARK RESOURCES, INC.**

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**Note 1 Basis of Presentation and Significant Accounting Policies**

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

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

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

**Note 2 Discontinued Operations**

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

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

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Summarized results of operations from discontinued operations are as follows:

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

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

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

**Note 3 Earnings per Share**

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

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

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



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

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

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

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

**Note 4 Stock Based Compensation**

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

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

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

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

**Note 6 Inventory**

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

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

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

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



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On August 17, 2006, a shareholder derivative action was filed in the 24th Judicial District Court for the Parish of Jefferson, captioned: *Victor Dijour, Derivatively on Behalf of Nominal Defendant Newpark Resources, Inc., v. James D. Cole, et al.* On August 28, 2006, a second shareholder derivative action was filed in the 24th Judicial District Court for the Parish of Jefferson, captioned: *James Breaux, Derivatively on Behalf of Nominal Defendant Newpark Resources, Inc., v. James D. Cole, et al.* These actions, which are substantially similar, were brought, allegedly for the benefit of us, in which we are sued as a nominal defendant in each of these actions, against James D. Cole, our former Chief Executive Officer and director; Matthew W. Hardey, our former Chief Financial Officer; William Thomas Ballantine, our former Chief Operating Officer, President and director; and directors David P. Hunt, Alan J. Kaufman, Roger C. Stull and James H. Stone. The plaintiffs in these respective actions allege improper backdating of stock option grants to our executives, improper recording and accounting of the backdated stock option grants and producing and disseminating false financial statements and other SEC filings to our shareholders and the market. The plaintiffs do not seek any recovery against us. Instead, they seek unspecified damages from the individual defendants on our behalf for alleged breach of fiduciary duty, and against Messrs. Cole and Hardey, and also against Mr. Ballantine in the second shareholder derivative action, for alleged unjust enrichment. These two cases were voluntarily dismissed without prejudice by the plaintiffs on December 29, 2006 and have subsequently been re-filed in the U.S. District Court for the Eastern District of Louisiana. The complaints in the re-filed cases are virtually identical to the complaints filed in the *Galchutt* and *Pomponi* cases described below.

On October 5, 2006, a third shareholder derivative action was filed in the U.S. District Court, Eastern District of Louisiana, captioned: *Vincent Pomponi, Derivatively on Behalf of Newpark Resources, Inc., v. James D. Cole, et al.* On October 6, 2006, a fourth derivative action was filed in the U.S. District Court, Eastern District of Louisiana, captioned: *David Galchutt, Derivatively on Behalf of Newpark Resources, Inc., v. James D. Cole, et al.* These complaints are virtually identical and were brought, allegedly for the benefit of us, in which we are sued as a nominal defendant, against Messrs. Cole and Hardey and current and previous directors Hunt, Kaufman, Stone, Stull, Jerry W. Box, F. Walker Tucei, Jr., Gary L. Warren, Ballantine, Michael Still, Dibo Attar, Phillip S. Sassower, Lawrence I. Schneider and David C. Baldwin, alleging improper financial reporting and backdating of stock option grants to our employees. The plaintiffs do not seek any recovery against us. Instead, they seek unspecified damages from Messrs. Cole and Hardey for alleged disgorgement under the Sarbanes-Oxley Act of 2002 and alleged rescission, against Messrs. Hardey, Hunt, Kaufman, Stone, Ballantine, Still, Attar, Sassower, Schneider, and Baldwin for alleged violation of Section 14(a) of the Securities Exchange Act of 1934, which we refer to as the Exchange Act, and against all of the individual defendants on behalf of us for alleged unjust enrichment, breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and constructive trust. All four derivative actions have been consolidated in Judge Livaudais' court.

Pursuant to previously existing indemnification agreements, we are advancing to the officer and director defendants the fees they incur to defend themselves, subject to repayment in the event of a determination that they are not entitled to indemnification. We have also agreed to advance to the former directors the fees they incur to defend themselves subject to certain restrictions on reasonableness and an agreement to repay in the event of a determination that they are not entitled to indemnification.

Our Board of Directors formed a Special Litigation Committee consisting of David C. Anderson and James W. McFarland, recently elected independent directors who are not named in any of the derivative actions, to review the allegations in these actions and in any other derivative actions that may be filed that involve the same subject matter, and the

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Special Litigation Committee has retained outside counsel to assist it. After conducting its investigation and analysis of the claims made in the derivative actions, the Special Litigation Committee approved the settlement of the derivative actions on the terms outlined above. The Special Litigation Committee has recommended that we preserve our causes of action against Messrs. Cole and Hardey, but that we not pursue claims against any other officer or director of our company named in the derivative actions.

**Class Action Lawsuit**

Between April 21, 2006 and May 9, 2006, five lawsuits asserting claims against us for violation of Section 10(b) of the Exchange Act, and SEC Rule 10b-5 were filed in the U.S. District Court for the Eastern District of Louisiana. All five lawsuits have been transferred to Judge Marcel Livaudais who has consolidated these actions as *In re: Newpark Resources, Inc. Securities Litigation*. Following the filing of the Amendment No. 2 to our Annual Report on Form 10-K/A for 2005 (filed on October 10, 2006), the plaintiffs filed (on November 9, 2006) a Consolidated Class Action Complaint for Securities Fraud (the Consolidated Class Complaint ) against us and the following directors and officers: James Cole, Matthew Hardey, Thomas Ballantine, David Hunt, Alan Kaufman, James Stone, Roger Stull and Jerry Box. The Consolidated Class Complaint alleges that we and the individual defendants made false and misleading statements in violation of Sections 10(b) and 20(a) of the Exchange Act. These allegations arise from our disclosure of an internal investigation into potential irregularities in the processing and payment of invoices at one of our subsidiaries, Soloco Texas, LP, and alleged improper granting, recording and accounting of backdated grants of our stock options to our executives. The Consolidated Class Complaint does not specify the damages sought by the Plaintiffs and no discovery has been conducted to date.

Pursuant to previously existing indemnification agreements, we are advancing to the officer and director defendants the fees they incur to defend themselves, subject to repayment in the event of a determination that they are not entitled to indemnification.

**James D. Cole Demand Letter**

By letter dated April 25, 2007, counsel for James D. Cole, our former Chief Executive Officer and former director, notified us that Mr. Cole is pursuing claims against us for breach of his employment agreement and other causes of action. Mr. Cole seeks recovery of approximately \$3.1 million purportedly due under his employment agreement and reimbursement of certain defense costs incurred in connection with the shareholder litigation and our internal investigation. Mr. Cole also claims that he is entitled to the sum of \$640,000 pursuant to the non-compete provision of his employment agreement. We believe that Mr. Cole's claims regarding his employment agreement are without merit and intend to vigorously defend any action brought by him.

**Other Matters**

In response to our announcement to exit the business activities of NEWS as disclosed in our Current Report on Form 8-K filed on August 30, 2006, we received a letter from counsel for the Mexican company in September 2006 demanding, among other things, that we return to the Mexican company certain equipment and pay it an aggregate of \$4.0 million for the period that this equipment was utilized, technical support and administrative costs, unreimbursed costs of the equipment, and lost profits due to the Mexican company's dedication of time to our water treatment business. We have resolved this claim by agreeing to return certain equipment belonging to the Mexican company and providing to them certain assets from the former NEWS operations. A charge of \$0.4 million was recorded in the second quarter of 2007 related to the decommissioning of one of the former NEWS facilities and our obligations to return the equipment.

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We have also been advised that the Securities and Exchange Commission ( SEC ) has 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. We are cooperating with the SEC in their investigation.

In addition, we and our subsidiaries are involved in litigation and other claims or assessments on matters arising in the normal course of business. In the opinion of management, any recovery or liability in these matters should not have a material effect on our results of operations or financial position.

**Note 8 Segment Data**

Summarized financial information concerning our reportable segments is shown in the following table:

(In thousands)	Three Months Ended June		Six Months Ended June	
	2007	30, 2006	2007	30, 2006
Revenues by segment:				
Fluids Systems and Engineering	\$ 131,163	\$ 111,868	\$ 256,461	\$ 227,157
Mats and Integrated Services	18,819	31,133	42,785	60,384
Environmental Services	17,068	17,723	35,005	35,062
Total revenues	\$ 167,050	\$ 160,724	\$ 334,251	\$ 322,603
Segment operating income:				
Fluids Systems and Engineering	\$ 16,323	\$ 13,143 <sup>(1)</sup>	\$ 32,953	\$ 25,803 <sup>(1)</sup>
Mats and Integrated Services	2,273	4,217	6,873	8,559
Environmental Services	2,867	2,349 <sup>(2)</sup>	6,098	4,382 <sup>(2)</sup>
Total segment operating income	21,463	19,709	45,924	38,744
General and administrative expenses	5,111	5,463	13,266	8,792
Total operating income	\$ 16,352	\$ 14,246	\$ 32,658	\$ 29,952

(1) Includes  
\$0.8 million of  
insurance  
recoveries as a  
result of  
Hurricanes  
Katrina and Rita

(2) Includes  
\$0.1 million of  
insurance  
recoveries as a  
result of  
Hurricanes  
Katrina and Rita

In the first quarter of 2007 following a comprehensive review of all of our businesses, we decided to explore strategic alternatives with regards to our Environmental Services business, including the potential sale of this business. This decision is part of our newly-developed strategic plan to focus our attention and capital on our Fluids Systems

and Engineering and Mats and Integrated Services businesses. It is in these two segments where we believe there is a greater opportunity for earnings growth.

**Note 9 Uncertain Tax Positions**

On January 1, 2007, we adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). As a result of the implementation of FIN 48, we performed a comprehensive review of possible uncertain tax positions in accordance with recognition standards established by FIN 48. As a result of the implementation of FIN 48, we recognized a liability of approximately \$0.8 million resulting in a corresponding increase to the retained deficit balance.

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We recognize accrued interest and penalties related to uncertain tax positions in interest and general and administrative expenses, respectively. No interest or penalties have been accrued due to tax net operating loss carry forwards.

Our United States and international income tax returns for 2003 and subsequent years remain subject to examination by tax authorities.

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**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of our financial condition, results of operations, liquidity and capital resources should be read together with our consolidated financial statements and Notes to Consolidated Financial Statements contained in this report as well as our Annual Report on Form 10-K for the year ended December 31, 2006.

We are a diversified oil and gas industry supplier and we currently have three operating 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 and production ( E&P ) industry in the U.S. Gulf Coast, West Texas, U.S. Mid-continent, U.S. Rocky Mountains, Canada, Mexico, Brazil and areas of Europe and North Africa surrounding the Mediterranean Sea. Further, we are expanding our presence outside the E&P sector, particularly in Mats and Integrated Services, where we are marketing to utilities, municipalities, and government sectors.

Following a comprehensive review of all of our businesses in the first quarter of 2007, we decided to explore strategic alternatives with regards to our Environmental Services business, including the potential sale of this business. Subsequently, we initiated a sale process for this business. While we have received indications of interest from numerous potential buyers and are continuing to conduct due diligence procedures with them, we have not yet entered into any binding agreement to sell this business. The decision to explore the potential sale of this business is part of our newly developed strategic plan to focus our attention and capital on our Fluids Systems and Engineering and Mats and Integrated Services businesses.

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

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

**Results of Operations**

Our operating results depend in large measure on oil and gas drilling activity levels in the markets we serve, as well as on the depth of drilling, which governs the revenue potential of each well. These levels, in turn, depend on oil and gas commodity pricing, inventory levels and product demand. Rig count data is the most widely accepted indicator of drilling activity. Key average rig count data for the last six quarters is listed in the following table:

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	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
U.S. rig count	1,521	1,635	1,721	1,719	1,734	1,757
Canadian rig count	661	292	490	441	521	144

Derived from  
Baker Hughes  
Incorporated

Summarized financial information concerning our reportable segments is shown in the following table:

(In thousands)	Three Months Ended June		Six Months Ended June	
	2007	30, 2006	2007	30, 2006
Revenues by segment:				
Fluids Systems and Engineering	\$ 131,163	\$ 111,868	\$ 256,461	\$ 227,157
Mats and Integrated Services	18,819	31,133	42,785	60,384
Environmental Services	17,068	17,723	35,005	35,062
Total revenues	\$ 167,050	\$ 160,724	\$ 334,251	\$ 322,603
Segment operating income:				
Fluids Systems and Engineering	\$ 16,323	\$ 13,143 <sup>(1)</sup>	\$ 32,953	\$ 25,803 <sup>(1)</sup>
Mats and Integrated Services	2,273	4,217	6,873	8,559
Environmental Services	2,867	2,349 <sup>(2)</sup>	6,098	4,382 <sup>(2)</sup>
Total segment operating income	21,463	19,709	45,924	38,744
General and administrative expenses	5,111	5,463	13,266	8,792
Total operating income	\$ 16,352	\$ 14,246	\$ 32,658	\$ 29,952
Segment Operating Margin:				
Fluids Systems and Engineering	12.4%	11.7%	12.8%	11.3%
Mats and Integrated Services	12.1%	13.5%	16.1%	14.2%
Environmental Services	16.8%	13.3%	17.4%	12.5%

(1) Includes  
\$0.8 million of  
insurance  
recoveries as a  
result of  
Hurricanes  
Katrina and Rita

(2) Includes  
\$0.1 million of  
insurance  
recoveries as a

result of  
Hurricanes  
Katrina and Rita

The amounts above are shown net of intersegment transfers.

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**Table of Contents****Quarter Ended June 30, 2007 Compared to Quarter Ended June 30, 2006****Fluids Systems and Engineering***Revenues*

Total revenues by region for this segment were as follows for the three months ended June 30, 2007 and 2006 (dollars in millions):

	2007	2006	Change \$	%
Drilling fluid sales and engineering:				
North America	\$ 82.8	\$ 70.4	\$12.4	18%
Mediterranean	20.4	14.2	6.2	44
Total drilling fluid sales and engineering	103.2	84.6	18.6	22
Completion fluids and services	17.8	18.3	(0.5)	(3)
Industrial materials	10.2	9.0	1.2	13
Total	\$131.2	\$111.9	\$19.3	17%

North American drilling fluid sales and engineering revenues increased 18% to \$82.8 million for the quarter ended June 30, 2007, as compared to \$70.4 million for the quarter ended June 30, 2006. Overall North American rig activity decreased 1% during this period, including a 7% increase in the U.S. rig count and a 51% decrease in the Canadian rig count. The average number of North American rigs serviced by this segment, namely the U.S. Gulf Coast, U.S. Central Region and Canada, decreased by 5%. Significant drivers of the revenue growth were market penetration in areas where new rigs are being deployed in the off-shore Gulf Coast markets and the servicing of more complicated wells which generate higher revenues and improved pricing. The decrease in the number of rigs serviced by this segment is primarily related to the Canadian market due to the decrease in rig count as well as a shift to drilling shallower conventional oil wells as compared to the deeper wells that we typically service. Average revenue per rig, an indication of the complexity and depth of wells being serviced, increased 24% in the quarter ended June 30, 2007 from the same period in 2006.

In the quarter ended June 30, 2007, our Mediterranean revenues increased 44% over the same period in 2006. This increase was driven by North African rig activity and continued penetration into these markets.

Revenues in our industrial materials business is principally associated with wholesale sales of barite and industrial minerals. These revenues increased \$1.2 million for the quarter ended June 30, 2007, or 13%, as compared to the same period in 2006 as a result of higher demand for barite driven by the increased drilling activity in the U.S. markets we serve.

*Operating Income*

Operating income for this segment increased \$3.2 million for the quarter ended June 30, 2007 on a \$19.3 million increase in revenues, compared to the same period in 2006, representing an incremental operating margin of 16.5%. The operating margin for this segment for the quarter ended June 30, 2007 was 12.4%, compared to 11.7% for the comparable period in 2006. The second quarter of 2006 included \$0.8 million of insurance recoveries from Hurricanes Katrina and Rita. Excluding this non-recurring item, the increase in operating margin included \$2.1 million attributable to increased sales volume and \$1.9 million attributable to operating leverage gained throughout the segment and a change in mix of revenues, along with an increased focus on pricing driven by higher customer demand.

**Table of Contents****Mats and Integrated Services***Revenues*

Total revenues for this segment consist of the following for the three months ended June 30, 2007 and 2006 (dollars in millions):

	<b>2007</b>	<b>2006</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Mat rental and integrated services	\$ 13.0	\$ 12.4	\$ 0.6	5%
Mat sales	3.5	17.1	(13.6)	(80)
Non-oilfield services and other	2.3	1.6	0.7	44
<b>Total</b>	<b>\$ 18.8</b>	<b>\$ 31.1</b>	<b>\$(12.3)</b>	<b>(40%)</b>

Oilfield mat rental volume decreased 40% for the quarter ended June 30, 2007 compared to the same period in 2006, while the average price per square foot increased 16%. Total mat rental and integrated services revenues increased by \$0.6 million in the quarter ended June 30, 2007, compared to the same period in 2006 as the impact of the lower rental volume was more than offset by improved pricing combined with a higher mix of re-rental activity and services.

Mat sales primarily consist of export sales of wooden mats to Canada and composite mats to other regions. The decline in mat sales is primarily attributable to a \$9.0 million decrease in Canadian sales, due to lower drilling activity and non-recurring wooden mat sales in the quarter ended June 30, 2006. Composite mat export sales were also down in the quarter ended June 30, 2007 from the comparable period of 2006 due to the timing of delivery for certain orders.

Non-oilfield services and other revenues, our lowest-margin business unit for this segment, were \$2.3 million in the quarter ended June 30, 2007, compared to \$1.6 million in the same period of 2006.

*Operating Income*

Mats and Integrated Services operating income declined \$1.9 million for the quarter ended June 30, 2007 on a \$12.3 million decrease in revenues, compared to the same period in 2006. Operating margins decreased to 12.1% for the quarter ended June 30, 2007 as compared to 13.5% for the same period in 2006. The decrease in operating margin is primarily attributable to the decline in sales volumes, as certain overhead and administrative costs remain relatively fixed. The decline in operating profit was partially offset by \$0.7 million of cost reductions in the quarter ended June 30, 2007, resulting from organizational restructuring and general and administrative workforce reductions completed during the first quarter of 2007.

**Table of Contents****Environmental Services***Revenues*

Total revenues for this segment consist of the following for the three months ended June 30, 2007 and 2006 (dollars in millions):

	2007	2006	\$	Change %
Environmental services:				
E&P waste-U.S. Gulf Coast	\$ 12.5	\$ 12.6	\$(0.1)	(1%)
E&P waste other markets	2.4	2.9	(0.5)	(17)
NORM and Industrial	2.2	2.2		
Total	\$ 17.1	\$ 17.7	\$(0.6)	(3%)

E&P waste-U.S. Gulf Coast revenues decreased slightly on a 13% decrease in waste volumes received. The average revenue per barrel in the U.S. Gulf Coast market increased 11% as compared to 2006 driven by improved pricing along with increased service revenue. The decrease in E&P waste revenues from other markets of \$0.5 million is related to lower activity in the western Canadian market.

*Operating Income*

Environmental Services operating income increased by \$0.5 million in the quarter ended June 30, 2007 from the comparable period of 2006, on a \$0.6 million decrease in revenues. This change reflects an improvement in operating margins from 13.3% to 16.8%. The improved operating margins are primarily attributable to improved pricing described above, along with a continued focus on operational efficiency.

**General and Administrative Expense**

General and administrative expense decreased \$0.4 million to \$5.1 million for the quarter ended June 30, 2007 from the comparable period of 2006. The quarter ended June 30, 2007 included \$0.4 million of legal fees related to the shareholder class action and derivative litigation, for which a settlement was reached in April 2007, subject to court approval. The quarter ended June 30, 2006 included \$1.4 million of expenses related to the internal investigation conducted by our Audit Committee which resulted in the restatement of financial statements for the year ended December 31, 2005. The remaining spending increase of \$0.6 million is primarily attributable to a \$0.5 million increase in salaries and other employee-related costs resulting from the relocation of the corporate office and the addition of new corporate executive officers and staff positions.

**Interest Expense, net**

Interest expense, net totaled \$3.8 million for the quarter ended June 30, 2007 as compared to \$4.1 million for the comparable period of 2006 due to lower average debt balances during the quarter ended June 30, 2007.

**Provision for Income Taxes**

For the quarter ended June 30, 2007, we recorded an income tax provision of \$4.6 million, reflecting an income tax rate of 35.7%. For the quarter ended June 30, 2006, we recorded an income tax provision of \$3.7 million, reflecting an income tax rate of 35.0%.

**Table of Contents****Discontinued Operations**

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

As described above, we entered into an agreement in July 2007 to sell substantially all of the operating assets of our sawmill facility for \$4.0 million, subject to certain adjustments. As a result of this agreement, we reclassified all assets, liabilities and results of operations to discontinued operations for all periods presented, and recorded an impairment charge of \$3.2 million (\$2.1 million after-tax) to reduce the value of the sawmill assets to expected realizable value.

**Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006****Fluids Systems and Engineering***Revenues*

Total revenues by region for this segment were as follows for the six months ended June 30, 2007 and 2006 (dollars in millions):

	<b>2007</b>	<b>2006</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Drilling fluid sales and engineering:				
North America	\$161.4	\$145.5	\$15.9	11%
Mediterranean	35.9	27.1	8.8	32
Total drilling fluid sales and engineering	197.3	172.6	24.7	14
Completion fluids and services	37.0	35.8	1.2	3
Industrial materials	22.2	18.8	3.4	18
Total	\$256.5	\$227.2	\$29.3	13%

North American drilling fluid sales and engineering revenues increased 11% to \$161.4 million for the six months ended June 30, 2007, as compared to \$145.5 million for the first six months of 2006. The average number of North American rigs serviced by this segment, namely the U.S. Gulf Coast, U.S. Central Region and Canada, decreased by 9% during the period. Significant drivers of the revenue growth were market penetration in areas where new rigs are being deployed in our markets, the servicing of more complicated wells which generate higher revenues and improved pricing. The decrease in the number of rigs serviced by this segment is primarily related to the Canadian market due to the decrease in rig count and a shift to drilling shallower conventional oil wells as compared to the deeper wells that we typically service. Average revenue per rig, an indication of the complexity and depth of wells being serviced, increased 22% in the six months ended June 30, 2007 from the same period in 2006.

In the six months ended June 30, 2007, our Mediterranean revenues increased 32% over the same period in 2006. This increase was driven by North African rig activity and continued penetration into these markets.

Revenues in our industrial materials business is principally associated with wholesale sales of barite and industrial minerals. These revenues increased \$3.4 million for the six months ended

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June 30, 2007, or 18%, as compared to the same period in 2006 as a result of higher demand for barite driven by the increased drilling activity in the U.S. markets we serve.

*Operating Income*

Operating income for this segment increased \$7.2 million for the six months ended June 30, 2007 on a \$29.3 million increase in revenues, compared to the same period in 2006, representing an incremental operating margin of 24.6%. The operating margin for this segment for the six months ended June 30, 2007 was 12.8%, compared to 11.3% for the comparable period in 2006. The six months ended June 30, 2006 included \$0.8 million of insurance recoveries from Hurricanes Katrina and Rita. Excluding this non-recurring item, the increase in operating margin included \$3.2 million attributable to increased sales volume and \$4.8 million attributable to operating leverage gained throughout the segment and a change in mix of revenues along with an improved pricing driven by higher market demand.

**Mats and Integrated Services***Revenues*

Total revenues for this segment consist of the following for the six months ended June 30, 2007 and 2006 (dollars in millions):

	<b>2007</b>	<b>2006</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Mat rental and integrated services	\$31.1	\$26.4	\$ 4.7	18%
Mat sales	8.9	31.7	(22.8)	(72)
Non-oilfield services	2.8	2.3	0.5	22
Total	\$42.8	\$60.4	\$(17.6)	(29%)

Oilfield mat rental volume decreased 19% for the six months ended June 30, 2007 compared to the same period in 2006, while the average price per square foot increased 23%. Total mats rental and integrated services increased by \$4.7 million in the six months ended June 30, 2007, compared to the same period in 2006, as the impact of the lower rental volume was more than offset by improved pricing combined with a higher mix of re-rental activity and services.

Mat sales primarily consist of export sales of wooden mats to Canada and composite mats to other regions. The decline in mat sales is primarily attributable to a \$16.7 million decrease in Canadian sales, due to lower drilling activity and non-recurring wooden mat sales recorded in the six months ended June 30, 2006. Composite mat export sales were also down in the six months ended June 30, 2007 from the comparable period of 2006 due to the timing of delivery for certain orders.

Non-oilfield services and other revenues, our lowest-margin business unit for this segment, were \$2.8 million in the six months ended June 30, 2007, compared to \$2.3 million in the same period of 2006.

*Operating Income*

Mats and Integrated Services operating income declined \$1.7 million for the six months ended June 30, 2007 on a \$17.6 million decrease in revenues, compared to the same period in 2006. Operating margins improved to 16.1% for the six months ended June 30, 2007 as compared to 14.2% for the same period in 2006. The improvement in operating margin is primarily attributable to favorable pricing and strong market conditions experienced in the first quarter of 2007, combined with \$0.7 million of cost reductions achieved in the quarter ended June 30, 2007, resulting from organizational restructuring and general and administrative workforce reductions completed during the first quarter of 2007.

**Table of Contents****Environmental Services****Revenues**

Total revenues for this segment consist of the following for the six months ended June 30, 2007 and 2006 (dollars in millions):

	2007	2006	<b>Change</b>	
			\$	%
Environmental Services:				
E&P waste-U.S. Gulf Coast	\$24.8	\$24.2	\$ 0.6	2%
E&P waste other markets	5.9	7.2	(1.3)	(18)
NORM and industrial	4.3	3.7	0.6	16
<b>Total</b>	<b>\$35.0</b>	<b>\$35.1</b>	<b>\$(0.1)</b>	

E&P waste-U.S. Gulf Coast revenues increased \$0.6 million, or 2%, on a 9% decrease in waste volumes received. The average revenue per barrel in the U.S. Gulf Coast market increased 12% as compared to the same period in 2006 which was driven by improved pricing as well as increased services revenue. The decrease in E&P waste revenues from other markets of \$1.3 million is related to lower activity in the western Canadian market. NORM and industrial revenues increased due to an increase in waste volumes received, combined with improved revenue per barrel.

**Operating Income**

Environmental Services operating income increased by \$1.7 million in the six months ended June 30, 2007 from the comparable period of 2006, on a \$0.1 million decrease in revenues. This change reflects an improvement in operating margins from 12.5% to 17.4%. The improved operating margins are primarily attributable to improved pricing described above, combined with the higher mix of NORM and industrial revenues, which resulted in higher revenues per barrel throughout the segment.

**General and Administrative Expense**

General and administrative expense increased \$4.5 million to \$13.3 million for the six months ended June 30, 2007 from the comparable period of 2006. The six months ended June 30, 2007 included \$2.8 million of legal expenses related to the shareholder class action and derivative litigation, including a \$1.6 million settlement charge based on an April 2007 agreement that is subject to court approval. Additionally, the six months ended June 30, 2007 included consulting fees of \$1.0 million related to corporate strategic planning projects.

The six months ended June 30, 2006 included \$1.4 million of expenses related to the internal investigation conducted by our Audit Committee which resulted in the restatement of financial statements for the year ended December 31, 2005. The remaining spending increase of \$2.1 million is primarily attributable to an increase in salaries and other employee related costs resulting from the relocation of the corporate office and the addition of new corporate executive officers and staff positions.

**Interest Expense, net**

Interest expense, net totaled \$8.2 million for the six months ended June 30, 2007 as compared to \$8.9 million for the comparable period of 2006 due to lower average debt balances during the six months ended June 30, 2007.

**Table of Contents****Provision for Income Taxes**

For the six months ended June 30, 2007, we recorded an income tax provision of \$8.8 million, reflecting an income tax rate of 35.7%. For the six months ended June 30, 2006, we recorded an income tax provision of \$7.6 million, reflecting an income tax rate of 35.4%.

**Discontinued Operations**

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

As described previously, we entered into an agreement in July 2007 to sell substantially all of the operating assets of our sawmill facility for \$4.0 million, subject to certain adjustments. See the discussion in Item 2 regarding the quarter ended June 30, 2007 compared to the quarter ended June 30, 2006 for additional details.

**Liquidity and Capital Resources**

Cash generated from operating activities during the six months ended June 30, 2007 totaled \$36.2 million. Net income adjusted for non-cash items generated \$33.2 million of cash during the period, while changes in working capital used \$0.3 million of cash. Capital expenditures for the six months ended June 30, 2007 were \$11.5 million.

Net cash used in financing activities during the six months ended June 30, 2007 totaled \$35.0 million and included \$36.7 million in net debt repayments. These repayments were primarily funded by net income, \$9.5 million reduction in idle cash balances, along with \$1.7 million in proceeds from employee stock plans.

We anticipate that our working capital requirements for 2007 will continue to increase with the anticipated growth in revenue. Cash generated by net income, along with our continued focus on improving our collection cycle are expected to be adequate to fund this increase in working capital.

Our long term capitalization was as follows as of:

	June 30, 2007	December 31, 2006
Long-term debt:		
Term Credit Facility	\$ 142,566	\$ 148,125
Credit facility-revolver	20,929	44,825
Other, primarily mat financing	2,545	5,236
Total long-term debt	166,040	198,186
Stockholders' equity	341,738	323,143
Total capitalization	\$ 507,778	\$ 521,329
Long-term debt to long-term capitalization	32.7%	38.0%

In August 2006, we entered into a Term Credit Facility, which has an aggregate face amount of \$150.0 million, a five-year term and a current interest rate of LIBOR plus 3.00%, based on our corporate family ratings by Moody's and Standard & Poor's. The maturity date of the Term Credit Facility is August 18, 2011.

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In December 2006, we entered into a Revolving Credit Facility, which has a maximum aggregate face amount of \$100.0 million and matures on June 25, 2011. The Revolving Credit Facility is secured by a first lien on our U.S. accounts receivable and inventory and by a second lien on our U.S. tangible and intangible assets. Availability under the Revolving Credit Facility is based on a percentage of our eligible consolidated accounts receivable and inventory as defined in the Revolving Credit Facility.

At June 30, 2007, we had \$20.9 million outstanding under the \$100 million Revolving Credit Facility and \$5.7 million in letters of credit issued and outstanding, leaving \$73.4 million of availability. The Revolving Credit Facility bears interest at our choice of either a specified prime rate (8.25% at June 30, 2007), or a LIBOR rate plus a spread determined quarterly based upon the amount of the prior quarter average availability under the Revolving Credit Facility (7.07% at June 30, 2007). The weighted average interest rates on the outstanding balances under the credit facilities as of June 30, 2007 and December 31, 2006 were 7.80% and 7.63%, respectively.

Both the Term Credit Facility and Revolving Credit Facility contain a fixed charge coverage ratio covenant and a debt to EBITDA ratio. As of June 30, 2007, we were in compliance with the financial covenants contained in these facilities. The Term Credit Facility and the Revolving Credit Facility also contain covenants that significantly limit our ability to pay dividends on our common stock, incur additional debt and repurchase our common stock.

With respect to additional off-balance sheet liabilities, we lease most of our office and warehouse space, barges, rolling stock and certain pieces of operating equipment under operating leases.

Except as described in the preceding paragraphs, we are not aware of any material expenditures, significant balloon payments or other payments on long-term obligations or any other demands or commitments, including off-balance sheet items to be incurred within the next 12 months. Inflation has not materially impacted our revenues or income.

*Critical Accounting Estimates*

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, which requires us to make assumptions, estimates and judgments that affect the amounts reported. We periodically evaluate our estimates and judgments related to uncollectible accounts and notes receivable, customer returns, reserves for obsolete and slow moving inventory, impairments of long-lived assets, including goodwill and other intangibles and our valuation allowance for deferred tax assets. Our estimates are based on historical experience and on our future expectations that we believe to be reasonable. The combination of these factors forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from our current estimates and those differences may be material.

For additional discussion of our critical accounting estimates and policies, see *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our Annual Report on Form 10-K for the year ended December 31, 2006. Our critical accounting policies have not changed materially since December 31, 2006, except for the adoption of Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 which we refer to as *FIN 48*, in Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.



**Table of Contents****ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risk from changes in interest rates and changes in foreign currency rates. A discussion of our primary market risk exposure in financial instruments is presented below.

*Interest Rate Risk*

Our policy historically has been to manage exposure to interest rate fluctuations by using a combination of fixed and variable-rate debt. At June 30, 2007, we had total debt outstanding of \$177.0 million, all of which is subject to variable rate terms.

Our Term Credit Agreement requires that we enter into, and thereafter maintain, interest rate management transactions, such as interest rate swap arrangements, to the extent necessary to provide that at least 50% of the aggregate principal amount of the Term Credit Facility is subject to either a fixed interest rate or interest rate protection for a period of not less than three years. To satisfy this requirement, we entered into an interest rate swap arrangement for the period from September 22, 2006 through March 22, 2008, which fixes the LIBOR rate applicable to 100% of the principle amount under the Term Credit Facility at 5.35% plus a spread based on our corporate family ratings by Moody's and Standard & Poor's. In addition, we entered into an interest rate cap arrangement that provides for a maximum LIBOR rate of 6.00% on the principal amount of \$68.9 million for the period from March 22, 2008 through September 22, 2009. We paid a fee of \$170,000 for the interest rate cap arrangement. Through this swap arrangement, we have effectively fixed the interest rate on \$143.9 million, or 81.3%, of our total debt outstanding as of June 30, 2007.

The fair value of the Term Credit Facility totaled \$145.1 million at June 30, 2007, as compared to the recorded balance of \$144.1 million. The fair value of the interest rate swap is a \$28,000 liability as of June 30, 2007. The fair value of the interest rate cap is \$68,000 as of June 30, 2007 as compared to the original cost of \$170,000.

As of June 30, 2007, Ava, S.p.A, our European fluids systems and engineering subsidiary, which we refer to as Ava, had a swap arrangement in which Ava received a floating rate from a bank and paid a rate which varied based on inflation. Under the terms of the swap, Ava receives an annual payment from the bank based on a Euro notional amount of \$4.0 million times the Euribor rate in effect as of the end of the determination period, and pays an annual amount to the bank based on the notional amount times a rate which varies according to both the Euribor rate and the published inflation rate for the Euro area. This arrangement requires annual settlements and matures in February 2015. At June 30, 2007, the fair value of this arrangement represents a liability of approximately \$0.7 million.

The remaining \$27.9 million of debt outstanding at June 30, 2007 bears interest at a floating rate. At June 30, 2007, the weighted average interest rate under our floating-rate debt was approximately 7.86%. A 200 basis point increase in market interest rates during 2007 would cause our annual interest expense to increase approximately \$0.4 million, net of taxes, resulting in less than a \$0.01 per diluted share reduction in annual earnings.

*Foreign Currency*

Our principal foreign operations are conducted in Canada, Brazil and in areas surrounding the Mediterranean Sea. We have foreign currency exchange risks associated with these operations, which are conducted principally in the foreign currency of the jurisdictions in which we operate. Historically, we have not used off-balance sheet financial hedging instruments to manage foreign currency risks when we enter into a transaction denominated in a currency other than our local currencies because the dollar amount of these transactions has not warranted our using hedging instruments. However, during the quarter ended March 31, 2005, our Canadian subsidiary committed to purchase approximately \$2.0 million of barite from one of our U.S. subsidiaries and we

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entered into a foreign currency forward contract arrangement to reduce its exposure to foreign currency fluctuations related to this commitment. During the quarter ended March 31, 2007, this contract expired and we have not entered into a similar contract.

**ITEM 4. Controls and Procedures**

(a) We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principle executive officer and principle financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation and oversight of our principle executive officer and principle financial officer, evaluated the design and effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principle executive officer and our principle financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2007.

(c) Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, we used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) entitled Internal Controls - Integrated Framework. As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2006, in conducting this evaluation, the following material weaknesses were identified in our internal control over financial reporting:

§ Management did not adequately monitor certain control practices to foster an environment that allowed for a consistent and open flow of information and communication between those who initiated transactions and those who were responsible for the financial reporting of those transactions, principally at one of our subsidiaries, Soloco Texas, LP. This control deficiency resulted in 2006 adjustments that were recorded by management and related to accounts receivable and revenues; and

§ Management did not maintain effective controls over the recording of intangible assets. This control deficiency resulted in 2006 adjustments that were recorded by management and related to intangible assets and cost of revenues.

We implemented certain corrective actions in 2006, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006. In order to further address the identified material weaknesses, management implemented additional corrective measures during the first half of 2007 including:

§ We have distributed our Corporate Compliance and Business Ethics Manual ( Manual ) to all U.S. employees and are in the process of distributing the Manual to our international employees. We have also established a process to train all management level employees regarding the policies in the Manual and have established procedures for employees to certify they have read and understand the policies.

§ We have activated our enhanced fraud hotline. We have also implemented an education campaign to inform employees of the hotline and its availability.

§ We have implemented procedures to provide assurances that no side agreements exist between us, our subsidiaries or employees and our significant vendors or customers.

§ We have further strengthened our controls in our Mats and integrated services segment surrounding the purchasing of products and services, particularly as they relate to receiving products at the operating locations.

§ We have implemented a policy that requires senior division management approval prior to entering into any transaction to sell products or services to a customer that is also a vendor.

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§ Our Intellectual Property Committee, which was established in 2006 and became operational in 2007, is responsible for the oversight and review of the establishment of intangible assets on our books, setting of the useful lives of intangible assets, the periodic review of the useful lives of intangible assets and the periodic review for potential impairment of intangible assets. This committee meets on a quarterly basis to review our intangible assets.

We believe that the corrective actions described above, taken together with the corrective actions taken in 2006, remedied the identified material weaknesses described above, and will improve both our disclosure controls and procedures and internal control over financial reporting. However, these controls have not been tested as extensively as required for the annual evaluation under Section 404 of the Sarbanes-Oxley Act of 2002. Additionally, there may be some additional control procedures implemented in the future to further strengthen the controls over financial reporting

Except as noted above, there were no other changes in our internal control over financial reporting during the quarter ended June 30, 2007, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II**

**ITEM 1. Legal Proceedings**

The information set forth in the legal proceedings section of Note 7, Commitments and Contingencies, to our consolidated financial statements included in this Quarterly Report on Form 10-Q is incorporated by reference into this Item 1.

**ITEM 1A. Risk Factors**

There have been no material changes during the period ended June 30, 2007 in our risk factors as set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006.

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

(a) None.

(b) None.

(c) None.

**ITEM 3. Defaults Upon Senior Securities**

Not applicable.

**Table of Contents****ITEM 4. Submission of Matters to a Vote of Security Holders**

(a) We held an Annual Meeting of Stockholders on June 13, 2007.

(b) The following seven directors were elected at that meeting to serve until the next Annual Meeting of Stockholders, with the following votes cast:

	For	Withheld
David C. Anderson	72,123,868	7,847,636
Jerry W. Box	71,093,582	8,877,922
G. Stephen Finley	79,385,374	586,130
Paul L. Howes	73,189,531	6,781,973
James W. McFarland	73,103,998	6,867,506
F. Walker Tucei, Jr	71,217,187	8,754,317
Gary L. Warren	73,184,215	6,787,289

(c) The amendment and restatement of the 2004 Non-Employee Directors Stock Option Plan was adopted, with the following votes cast:

For	Against	Abstain
57,828,389	8,045,832	40,206

(d) Stockholders ratified the selection of Ernst & Young LLP as independent auditors for the year ended December 31, 2007 with the following votes cast:

For	Against	Abstain
79,686,278	154,714	130,512

**ITEM 5. Other Information**

Not applicable.

**ITEM 6. Exhibits**

31.1 Certification of Paul L. Howes pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of James E. Braun pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Paul L. Howes pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of James E. Braun pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**NEWPARK RESOURCES, INC.  
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 3, 2007

NEWPARK RESOURCES, INC.

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

By: /s/ James E. Braun  
James E. Braun, Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

By: /s/ Gregg Piontek  
Gregg Piontek, Vice President, Controller and  
Chief  
Accounting Officer  
(Principal Accounting Officer)

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EXHIBIT INDEX

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