NEWPARK RESOURCES INC
Form 10-Q
October 31, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________.
Commission File No. 1-2960

Newpark Resources, Inc.
(Exact name of registrant as specified in its charter)

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

9320 Lakeside Boulevard, Suite 100	
The Woodlands, Texas	77381
(Address of principal executive offices)	(Zip Code)

(281) 362-6800
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes √ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes √ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer √
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No √

As of October 27, 2017, a total of 85,836,916 shares of common stock, $0.01 par value per share, were outstanding.

NEWPARK RESOURCES, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2017

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. Words such as “will”, “may”, “could”, “would”, “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, 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 Quarterly Report on Form 10-Q might not occur.

For further information regarding these and other factors, risks and uncertainties affecting us, we refer you to the risk factors set forth in Item 1A, “Risk Factors”, in Part I of our Annual Report on Form 10-K for the year ended December 31, 2016.

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

(In thousands, except share data)	September 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 64,741	$ 87,878
Receivables, net	262,105	214,307
Inventories	164,384	143,612
Prepaid expenses and other current assets	104,703	17,143
Total current assets	595,933	462,940
Property, plant and equipment, net	298,663	303,654
Goodwill	20,415	19,995
Other intangible assets, net	4,312	6,067
Deferred tax assets	3,379	1,747
Other assets	3,221	3,780
Total assets	$ 925,923	$ 798,183
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current debt	$ 85,119	$ 83,368
Accounts payable	85,049	65,281
Accrued liabilities	50,138	31,152
Total current liabilities	220,306	179,801
Long-term debt, less current portion	139,721	72,900
Deferred tax liabilities	36,559	38,743
Other noncurrent liabilities	7,577	6,196
Total liabilities	404,163	297,640
Commitments and contingencies (Note 10)		
Common stock, $0.01 par value, 200,000,000 shares authorized and 101,150,629 and 99,843,094 shares issued, respectively	1,012	998
Paid-in capital	568,743	558,966
Accumulated other comprehensive loss	(53,727)	(63,208)
Retained earnings	132,825	129,873
Treasury stock, at cost; 15,316,359 and 15,162,050 shares, respectively	(127,093)	(126,086)
Total stockholders' equity	521,760	500,543
Total liabilities and stockholders' equity	$ 925,923	$ 798,183

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2017	2016	2017	2016
Revenues	$201,663	$104,554	$543,374	$334,413
Cost of revenues	164,587	99,293	442,608	313,669
Selling, general and administrative expenses	27,270	21,736	79,297	66,663
Other operating income, net	(76)	(1,420)	(127)	(3,829)
Impairments and other charges	—	—	—	6,925
Operating income (loss)	9,882	(15,055)	21,596	(49,015)
Foreign currency exchange loss (gain)	174	761	1,100	(440)
Interest expense, net	3,586	2,127	10,245	7,230
Gain on extinguishment of debt	—	—	—	(1,894)
Income (loss) from operations before income taxes	6,122	(17,943)	10,251	(53,911)
Provision (benefit) for income taxes	3,469	(4,492)	6,949	(13,256)
Net income (loss)	$2,653	$(13,451)	$3,302	$(40,655)
Income (loss) per common share - basic:	$0.03	$(0.16)	$0.04	$(0.49)
Income (loss) per common share - diluted:	$0.03	$(0.16)	$0.04	$(0.49)

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Net income (loss)	$2,653	$(13,451)	$3,302	$(40,655)
Foreign currency translation adjustments	1,657	1,625	9,481	2,494
Comprehensive income (loss)	$4,310	$(11,826)	$12,783	$(38,161)

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Newpark Resources, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

(In thousands)	Common Stock	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2015	$ 994	$ 533,746	$ (58,276)	$ 171,788	$ (127,993)	$ 520,259
Net loss	—	—	—	(40,655)	—	(40,655)
Employee stock options, restricted stock and employee stock purchase plan	4	(696)	—	(1,202)	1,897	3
Stock-based compensation expense	—	8,865	—	—	—	8,865
Income tax effect, net, of employee stock related activity	—	(1,500)	—	—	—	(1,500)
Foreign currency translation	—	—	2,494	—	—	2,494
Balance at September 30, 2016	$ 998	$ 540,415	$ (55,782)	$ 129,931	$ (126,096)	$ 489,466
Balance at December 31, 2016	$ 998	$ 558,966	$ (63,208)	$ 129,873	$ (126,086)	$ 500,543
Net income	—	—	—	3,302	—	3,302
Employee stock options, restricted stock and employee stock purchase plan	14	1,319	—	(350)	(1,007)	(24)
Stock-based compensation expense	—	8,458	—	—	—	8,458
Foreign currency translation	—	—	9,481	—	—	9,481
Balance at September 30, 2017	$ 1,012	$ 568,743	$ (53,727)	$ 132,825	$ (127,093)	$ 521,760

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
(In thousands)	2017	2016
Cash flows from operating activities:		
Net income (loss)	$3,302	$(40,655)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Impairments and other non-cash charges	—	9,493
Depreciation and amortization	28,998	28,421
Stock-based compensation expense	8,458	8,865
Provision for deferred income taxes	(3,489)	(3,205)
Net provision for doubtful accounts	1,386	2,032
Gain on sale of assets	(4,896)	(2,331)
Gain on extinguishment of debt	—	(1,894)
Amortization of original issue discount and debt issuance costs	4,068	1,150
Change in assets and liabilities:		
(Increase) decrease in receivables	(73,512)	31,360
(Increase) decrease in inventories	(17,348)	25,368
Increase in other assets	(1,621)	(568)
Increase (decrease) in accounts payable	17,996	(24,241)
Increase (decrease) in accrued liabilities and other	52,421	(3,860)
Net cash provided by operating activities	15,763	29,935
Cash flows from investing activities:		
Capital expenditures	(21,888)	(33,390)
Increase in restricted cash	(85,680)	(578)
Proceeds from sale of property, plant and equipment	2,233	3,317
Business acquisitions, net of cash acquired	—	(3,761)
Net cash used in investing activities	(105,335)	(34,412)
Cash flows from financing activities:		
Borrowings on lines of credit	84,900	6,056
Payments on lines of credit	(21,400)	(7,210)
Purchase of 2017 Convertible Notes	—	(9,206)
Debt issuance costs	(342)	(2,143)
Other financing activities	1,487	1,452
Proceeds from employee stock plans	2,107	508
Purchases of treasury stock	(2,761)	(1,236)
Net cash provided by (used in) financing activities	63,991	(11,779)
Effect of exchange rate changes on cash	2,444	982
Net decrease in cash and cash equivalents	(23,137)	(15,274)
Cash and cash equivalents at beginning of year	87,878	107,138
Cash and cash equivalents at end of period	$64,741	$91,864
Cash paid (received) for:		
Income taxes (net of refunds)	$(24,673)	$(21,423)

Interest	$4,385	$4,331

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

NEWPARK RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Note 1 – Basis of Presentation and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Newpark Resources, Inc. and our wholly-owned subsidiaries, which we refer to as "we," "our" or "us," have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission ("SEC"), and do not include all information and footnotes required by the accounting principles generally accepted in the United States ("U.S. GAAP") for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016. Our fiscal year end is December 31, our third quarter represents the three-month period ended September 30 and our first nine months represents the nine-month period ended September 30. The results of operations for the third quarter and first nine months of 2017 are not necessarily indicative of the results to be expected for the entire year. Unless otherwise stated, all currency amounts are stated in U.S. dollars.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to fairly present our financial position as of September 30, 2017, and our results of operations for the third quarter and first nine months of 2017 and 2016 and our cash flows for the first nine months of 2017 and 2016. All adjustments are of a normal recurring nature. Our balance sheet at December 31, 2016 is derived from the audited consolidated financial statements at that date.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For further information, see Note 1 in our Annual Report on Form 10-K for the year ended December 31, 2016.

Reclassifications. Certain amounts reported in the condensed consolidated statements of cash flows for prior periods have been reclassified to conform to the current reporting presentation.

New Accounting Pronouncements

Standards adopted in 2017

Inventory Measurement: In July 2015, the FASB issued updated guidance that simplifies the subsequent measurement of inventory. It replaced the former lower of cost or market test with the lower of cost or net realizable value test. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We adopted this new guidance prospectively in the first quarter of 2017; however, the adoption did not have a material impact on our consolidated financial statements.

Share-based Compensation: In March 2016, the FASB issued updated guidance that simplified several aspects of accounting for share-based payments transactions, including income tax consequences. We adopted this new guidance in the first quarter of 2017.

The most significant impact of adopting this new guidance is the required change in accounting for excess tax benefits ("windfalls") and deficiencies ("shortfalls") related to share-based compensation. Beginning in the first quarter of 2017, such windfalls and shortfalls are now reflected in the consolidated statements of operations as a tax benefit or expense, respectively, whereas previously, they were generally recognized in additional paid in capital in the condensed consolidated balance sheets. For the first nine months of 2017, we recognized $0.2 million of expense in the provision for income taxes related to net shortfall tax deficiencies from share-based payments. For the first nine months of 2016, $1.5 million of net shortfall tax deficiencies were recognized in additional paid-in capital.

The new guidance also impacts the calculation of diluted earnings per share. When applying the treasury stock method to share-based payment awards, entities shall no longer include tax windfalls or shortfalls when calculating assumed proceeds to determine the awards dilutive effect on earnings per share. The adoption of this guidance did not materially impact our diluted earnings per share in each of the periods presented.

In addition to the income tax consequences described above, the new guidance requires all windfall tax benefits related to share-based payments be reported as cash flows from operating activities along with all other income tax cash flows. Previously, windfall tax benefits from share-based payment arrangements were reported as cash flows from financing activities. The new guidance allows companies to elect either a prospective or retrospective application with respect to this statement of cash flows

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presentation. We have elected to apply this classification amendment prospectively. Since we did not have any windfall tax benefits in 2016, the prospective adoption did not impact comparability with the prior year.
Finally, the new guidance allows for the accounting policy option to account for forfeitures as they occur or continue estimating expected forfeitures over the course of the vesting period as required under previous guidance. We have elected the accounting policy option to continue estimating forfeitures in determining share-based compensation expense resulting in no impact to our financial statements from the adoption of the new guidance.
Standards not yet adopted
Revenue Recognition: In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for us in the first quarter of 2018. The amendments are to be applied using a retrospective or modified retrospective approach. As part of our assessment work to date, we have formed an implementation work team and conducted assessments of the new guidance across our primary revenue streams. Our process includes performing a review of representative contracts across our primary revenue streams and comparing historical accounting practices to the new standard. While we have not fully completed our evaluation of the impacts of these amendments, our performance obligations under customer contracts are primarily short-term in nature. Therefore, we currently anticipate the adoption will not have a material impact on the timing or amounts of revenue recognized in our consolidated financial statements; however, we anticipate incremental disclosures to be included in our consolidated financial statements regarding our revenue recognition policies and related amounts. We currently anticipate adopting the new guidance utilizing the modified retrospective method with the cumulative effect recognized as of our adoption date, January 1, 2018.
Leases: In February 2016, the FASB issued updated guidance regarding accounting for leases. The new accounting standard provides principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize both assets and liabilities arising from financing and operating leases. The classification as either a financing or operating lease will determine whether lease expense is recognized based on an effective interest method basis or on a straight-line basis over the term of the lease, respectively. The new guidance is effective for us in the first quarter of 2019 with early adoption permitted. Based on our current lease portfolio, we anticipate the new guidance will require us to reflect additional assets and liabilities in our consolidated balance sheet; however, we have not yet completed an estimation of such amount and we are still evaluating the overall impact of the new guidance on our consolidated financial statements.
Credit Losses: In June 2016, the FASB issued new guidance which requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected, including trade receivables. The new standard requires an entity to estimate its lifetime “expected credit loss” for such assets at inception which will generally result in the earlier recognition of allowances for losses. The new guidance is effective for us in the first quarter of 2020 with early adoption permitted in 2019. This guidance should be applied using a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of the new guidance on our consolidated financial statements.
Statement of Cash Flows: In August 2016, the FASB issued updated guidance that clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update provides guidance on eight specific cash flow issues. This guidance is effective for us in the first quarter of 2018 and should be applied using the retrospective transition method to each period presented. Early adoption is permitted but all changes must be adopted in the same period. We do not expect the adoption of this new guidance to have a material impact on the presentation of our consolidated statements of cash flows.
Deferred Taxes on Intra-Entity Asset Transfers: In October 2016, the FASB amended the guidance related to the recognition of current and deferred income taxes for intra-entity asset transfers. Under current U.S. GAAP, recognition of income taxes on intra-entity asset transfers is prohibited until the asset has been sold to an outside party. This update requires that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This update does not change U.S. GAAP for the pre-tax effects of an intra-entity asset transfer or for an intra-entity transfer of inventory. This guidance is effective for us in the first

quarter of 2018 and should be applied using a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Restricted Cash Presentation: In November 2016, the FASB issued updated guidance that requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for us in the first quarter of 2018 with early adoption permitted and should be applied using a retrospective transition method to each period presented. At September 30, 2017 and December 31, 2016, we had $93.0 million and $7.4 million of restricted cash included in prepaid expenses and other current assets in the accompanying balance sheet. In the first nine months of 2017, we increased our restricted cash balance by depositing $84.9 million of cash with an escrow agent for the October 1, 2017 maturity of the unsecured convertible senior notes. See “Note 8 - Financing Arrangements and Fair Value of Financial Instruments” for additional information. We are continuing to evaluate the impact of the new guidance on the presentation of our consolidated financial statements.

Goodwill Impairment Test: In January 2017, the FASB amended the guidance related to the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Under the new guidance, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. This guidance is effective for us for goodwill impairment tests beginning after December 15, 2019. This guidance should be applied prospectively and early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Note 2 – Business Combinations

In August 2016, we completed the acquisition of Pragmatic Drilling Fluids Additives, Ltd. (“Pragmatic”), a Canadian provider of specialty chemicals for the oil and gas industry, which further expands our fluids technology portfolio and capabilities. The purchase price for this acquisition was $4.4 million, net of cash acquired. The purchase price allocation resulted in amortizable intangible assets of $1.7 million and goodwill of approximately $1.7 million. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes.

The results of operations of Pragmatic are reported within the Fluids Systems segment for the period subsequent to the date of the acquisition. Results of operations and pro-forma combined results of operations for the acquired business have not been presented as the effect of this acquisition is not material to our consolidated financial statements.

In October 2017, we entered into asset purchase agreements to acquire certain assets and assume certain liabilities of Well Service Group, Inc. and Utility Access Solutions, Inc. (together, “WSG”). WSG has been a strategic logistics and installation service partner for the Mats and Integrated Services segment since 2012, and the acquisition of WSG is expected to further expand upon the range of site construction and related services we offer our customers. WSG provides a variety of complementary services to our composite matting systems, including access road construction, site planning and preparation, environmental protection, fluids and spill containment, erosion control, and site restoration services. For the nine months ended September 30, 2017, WSG generated revenue of approximately $50 million. Under the terms of the agreements, total consideration at closing is expected to be approximately $75 million, subject to customary adjustments for actual working capital conveyed, which will be funded by approximately $43 million of cash consideration and $32 million of our common equity. The cash consideration will be funded through available cash on hand and borrowings under our Amended ABL Facility. Subject to satisfaction of customary closing conditions, the acquisition is expected to close in November 2017.

Note 3 – Earnings per Share

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

(In thousands, except per share data)	Third Quarter 2017	Third Quarter 2016	First Nine Months 2017	First Nine Months 2016
Numerator				
Basic - net income (loss)	$2,653	$(13,451)	$3,302	$(40,655)
Assumed conversions of 2017 Convertible Notes	—	—	—	—
Diluted - adjusted net income (loss)	$2,653	$(13,451)	$3,302	$(40,655)
Denominator				
Basic - weighted average common shares outstanding	85,426	83,998	84,749	83,573
Dilutive effect of stock options and restricted stock awards	2,251	—	2,545	—
Dilutive effect of 2017 Convertible Notes	—	—	—	—
Dilutive effect of 2021 Convertible Notes	—	—	—	—
Diluted - weighted average common shares outstanding	87,677	83,998	87,294	83,573
Net income (loss) per common share				
Basic	$0.03	$(0.16)	$0.04	$(0.49)
Diluted	$0.03	$(0.16)	$0.04	$(0.49)

We excluded the following weighted-average potential shares from the calculations of diluted net income (loss) per share during the applicable periods because their inclusion would have been anti-dilutive:

(In thousands)	Third Quarter 2017	Third Quarter 2016	First Nine Months 2017	First Nine Months 2016
Stock options and restricted stock-based awards	1,693	8,279	2,149	7,258
2017 Convertible Notes	7,569	14,666	7,569	14,869
2021 Convertible Notes	—	—	—	—

The 2021 Convertible Notes (as defined in Note 8 below) will not impact the calculation of diluted net income per share unless the average price of our common stock, as calculated in accordance with the terms of the indenture governing the 2021 Convertible Notes, exceeds the conversion price of $9.33 per share. At September 30, 2017, the average price of our common stock was $8.54 per share. We have the option to pay cash, issue shares of common stock, or any combination thereof for the aggregate amount due upon conversion of the 2021 Convertible Notes as further described in Note 8 below. If converted, we currently intend to settle the principal amount of the notes in cash and as a result, only the amounts payable in excess of the principal amount of the notes, if any, are assumed to be settled with shares of common stock for purposes of computing diluted net income per share.

Note 4 – Stock-Based and Other Long Term Incentive Compensation

During the second quarter of 2017, our stockholders approved an amendment to the 2015 Employee Equity Incentive Plan (“2015 Plan”) to increase the number of shares authorized for issuance under the 2015 Plan from 7,800,000 to 9,800,000 shares. At September 30, 2017, 1,987,717 shares remained available for award under the 2015 plan.

During the second quarter of 2017, the Compensation Committee of our Board of Directors approved equity-based compensation to executive officers and other key employees. The awards included a grant of 747,661 shares of restricted stock units which will primarily vest in equal installments over a three-year period. Non-employee directors received shares of restricted stock totaling 98,714 shares, which will vest in full on the earlier of the day prior to the next annual meeting of stockholders following the grant date or the first anniversary of the grant date. The weighted average fair value on the date of grant for all of these awards was $7.80 per share.

The Compensation Committee also approved the issuance of cash-settled awards during the second quarter of 2017, including $5.3 million of time-based cash awards and a target amount of $1.3 million of performance-based cash awards. The time-based cash awards were granted to executive officers and other key employees and primarily vest in equal installments over

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a three-year period. The performance-based cash awards were granted to executive officers and will be paid based on the relative ranking of the Company's total shareholder return ("TSR") as compared to the TSR of the Company's designated peer group for 2017. The performance period began June 1, 2017 and ends May 31, 2020, with the ending TSR price being equal to the average closing price of our shares over the 30-calendar days ending May 31, 2020 with the cash payout for each executive ranging from 0% to 150% of target. The performance-based cash awards are accrued as a liability award over the performance period based on the estimated fair value. The fair value of the performance-based cash awards is remeasured each period using a Monte-Carlo valuation model with changes in fair value recognized in the consolidated statement of operations.

Note 5 – Repurchase Program

Our Board of Directors approved a repurchase program that authorizes us to purchase up to $100.0 million of our outstanding shares of common stock and prior to their maturity, our outstanding 2017 Convertible Notes (as defined in Note 8 below). The repurchase program has no specific term. We may repurchase shares or prior to their maturity, we could repurchase 2017 Convertible Notes in the open market or as otherwise determined by management, subject to certain limitations under the ABL Facility (as defined in Note 8 below) and other factors. Repurchases are expected to be funded from operating cash flows and available cash on-hand. As part of the share repurchase program, our management has been authorized to establish trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934. There were no shares repurchased during the first nine months of 2017 and 2016.

In February 2016, we repurchased $11.2 million of our 2017 Convertible Notes in the open market for $9.2 million and recognized a net gain of $1.9 million reflecting the difference in the amount paid and the net carrying value of the extinguished debt, including debt issuance costs. This repurchase was made under the existing Board authorized repurchase program discussed above. In addition, the Board separately authorized the repurchase of $78.1 million of 2017 Convertible Notes in connection with the December 2016 issuance of $100.0 million of 2021 Convertible Notes. As of September 30, 2017, we had $33.5 million of authorization remaining under the program.

Note 6 – Receivables

Receivables consisted of the following:

(In thousands)	September 30, 2017	December 31, 2016
Gross trade receivables	$ 247,732	$ 162,569
Allowance for doubtful accounts	(9,658)	(8,849)
Net trade receivables	238,074	153,720
Income tax receivables	5,055	39,944
Other receivables	18,976	20,643
Total receivables, net	$ 262,105	$ 214,307

Gross trade receivables increased $85.2 million, or 52%, in the first nine months of 2017 primarily due to the increase in revenues.

At December 31, 2016, income tax receivables included approximately $38.0 million related to the carryback refund claims primarily for our U.S. federal tax losses incurred in 2016, substantially all of which was received in the second quarter of 2017.

Other receivables includes $10.4 million and $11.5 million for value added, goods and service taxes related to foreign jurisdictions as of September 30, 2017 and December 31, 2016, respectively. In addition, other receivables includes $8.0 million at September 30, 2017 and December 31, 2016 in connection with the March 2014 sale of the Environmental Services business that is held in escrow associated with transaction representations, warranties and indemnities. In December 2014, the buyer made certain claims for indemnification under the terms of the sale agreement, which defers the release of the escrow funds until such claims are resolved. Further discussion of the buyer's claims and related litigation is contained in Note 10 below.

Customer Revenue Concentration. Revenue from Sonatrach, our primary customer in Algeria, was approximately 15% of consolidated revenues in the first nine months of 2016. In the first nine months of 2017, Sonatrach represented less than 10% of consolidated revenues.

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Note 7 – Inventories

Inventories consisted of the following:

(In thousands)	September 30, 2017	December 31, 2016
Raw materials:		
Drilling fluids	$ 131,307	$ 115,399
Mats	1,385	1,137
Total raw materials	132,692	116,536
Blended drilling fluids components	25,635	23,762
Finished goods - mats	6,057	3,314
Total inventory	$ 164,384	$ 143,612

Raw materials consist primarily of barite, chemicals, and other additives that are consumed in the production of our drilling fluid systems. Our blended drilling fluids components consist of base drilling fluid systems that have been either mixed internally at our mixing plants or purchased from third-party vendors. These base systems require raw materials to be added, as needed to meet specified customer requirements.

Note 8 – Financing Arrangements and Fair Value of Financial Instruments

Financing arrangements consisted of the following:

(In thousands)	September 30, 2017			December 31, 2016		
	Principal Amount	Unamortized Discount and Debt Issuance Costs	Total Debt	Principal Amount	Unamortized Discount and Debt Issuance Costs	Total Debt
2017 Convertible Notes	83,252	—	83,252	83,256	(268)	82,988
2021 Convertible Notes	100,000	(23,779)	76,221	100,000	(27,100)	72,900
ABL Facility	63,500	—	63,500	—	—	—
Other debt	1,867	—	1,867	380	—	380
Total debt	248,619	(23,779)	224,840	183,636	(27,368)	156,268
Less: current portion	(85,119)	—	(85,119)	(83,636)	268	(83,368)
Long-term debt	163,500	(23,779)	139,721	100,000	(27,100)	72,900

2017 Convertible Notes. In September 2010, we issued $172.5 million of unsecured convertible senior notes ("2017 Convertible Notes") that matured on October 1, 2017, of which, $83.3 million aggregate principal amount remained outstanding at September 30, 2017. In advance of the October 2017 settlement, $84.9 million of cash was placed in an escrow account and reported as restricted cash within prepaid expenses and other current assets as of September 30, 2017. Subsequent to the end of the third quarter, this restricted cash was used for the full satisfaction of the outstanding principal and interest of the 2017 Convertible Notes. The notes bore interest at a rate of 4.0% per year, payable semi-annually in arrears on April 1 and October 1 of each year. The conversion rate was 90.8893 shares of our common stock per $1,000 principal amount of notes (equivalent to a conversion price of $11.00 per share of common stock). Prior to maturity in 2017, holders converted an insignificant amount of 2017 Convertible Notes into shares of our common stock. The conversion price exceeded the market value of our common stock at the date of maturity.

2021 Convertible Notes. In December 2016, we issued $100.0 million of unsecured convertible senior notes ("2021 Convertible Notes") that mature on December 1, 2021, unless earlier converted by the holders pursuant to the terms of the notes. The notes bear interest at a rate of 4.0% per year, payable semiannually in arrears on June 1 and December 1 of each year.

Holders may convert the notes at their option at any time prior to the close of business on the business day immediately preceding June 1, 2021, only under the following circumstances:

- during any calendar quarter (and only during such calendar quarter) if the last reported sale price of our common stock for at least 20 trading days (regardless of whether consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the notes in effect on each applicable trading day;

- during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of notes for each trading day was less than 98% of the last reported sale price of our common stock on such date multiplied by the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events, as described in the indenture governing the notes, such as a consolidation, merger, or share exchange.

On or after June 1, 2021 until the close of business on the business day immediately preceding the maturity date, holders may convert their notes at any time, regardless of whether any of the foregoing conditions have been satisfied. As of September 30, 2017, the notes were not convertible.

The notes are convertible into, at our election, cash, shares of common stock, or a combination of both, subject to satisfaction of specified conditions and during specified periods, as described above. If converted, we currently intend to pay cash for the principal amount of the notes converted. The conversion rate is initially 107.1381 shares of our common stock per $1,000 principal amount of notes (equivalent to an initial conversion price of $9.33 per share of common stock), subject to adjustment in certain circumstances. We may not redeem the notes prior to their maturity date.

In accordance with accounting guidance for convertible debt with a cash conversion option, we separately accounted for the debt and equity components of the notes in a manner that reflected our estimated nonconvertible debt borrowing rate. We estimated the fair value of the debt component of the notes to be $75.2 million at the issuance date, assuming a 10.5% non-convertible borrowing rate. The carrying amount of the equity component was determined to be approximately $24.8 million by deducting the fair value of the debt component from the principal amount of the notes, and was recorded as an increase to additional paid-in capital, net of the related deferred tax liability of $8.7 million. The excess of the principal amount of the debt component over its carrying amount (the “debt discount”) is being amortized as interest expense over the term of the notes using the effective interest method.

We allocated transaction costs related to the issuance of the notes, including underwriting discounts, of $0.9 million and $2.6 million to the equity and debt components, respectively. Issuance costs attributable to the equity component were netted against the equity component recorded in additional paid-in capital. The amount of the equity component was $15.2 million at the time of issuance (net of issuance costs and the deferred tax liability related to the conversion feature) and is not remeasured as long as it continues to meet the conditions for equity classification.

The $2.6 million of issuance costs attributable to the debt component were netted against long-term debt and are being amortized to interest expense over the term of the notes using the effective interest method. As of September 30, 2017, the carrying amount of the debt component was $76.2 million, which is net of the unamortized debt discount and issuance costs of $21.5 million and $2.3 million, respectively. Including the impact of the debt discount and deferred debt issuance costs, the effective interest rate on the notes is approximately 11.3%.

Revolving Credit Facility. In March 2015, we entered into a Third Amended and Restated Credit Agreement (the “Credit Agreement”) which provided for a $200.0 million revolving loan facility available for borrowings and letters of credit through March 2020. In December 2015, the Credit Agreement was amended, decreasing the revolving credit facility to $150.0 million and subsequently, we terminated the Credit Agreement in May 2016, replacing it with an asset-based revolving loan facility as discussed further below. As of the date of termination, we had no outstanding borrowings under the Credit Agreement. In the second quarter of 2016, we recognized a non-cash charge of $1.1 million in interest expense for the write-off of debt issuance costs in connection with the termination.

Asset-Based Loan Facility. In May 2016, we entered into an asset-based revolving credit agreement (the “ABL Facility”) which replaced the terminated Credit Agreement. The ABL Facility provides financing of up to $90.0 million available for borrowings (inclusive of letters of credit) and subject to certain conditions, can be increased to a maximum capacity of $150.0 million.

Borrowing availability under the ABL Facility is calculated based on eligible accounts receivable, inventory, and, subject to satisfaction of certain financial covenants as described below, composite mats included in the rental fleet, net of reserves and limits on such assets included in the borrowing base calculation. To the extent pledged by us, the borrowing base calculation shall also include the amount of eligible pledged cash. The lender may establish reserves, in part based on appraisals of the asset base, and other limits at its discretion which could reduce the amounts otherwise available under the ABL Facility. Availability associated with eligible rental mats will also be subject to maintaining a minimum consolidated fixed charge coverage ratio and a minimum level of operating income for the Mats and Integrated Services segment. As of September 30, 2017, our total borrowing base under the ABL Facility was $90.0 million, of which, $63.5 million was drawn, resulting in availability of $26.5 million.

Under the terms of the ABL Facility, we may elect to borrow at a variable interest rate plus an applicable margin based on either, (1) LIBOR subject to a floor of zero or (2) a base rate equal to the highest of: (a) the federal funds rate plus 50 basis points, (b) the prime rate of Bank of America, N.A. or (c) LIBOR, subject to a floor of zero, plus 100 basis points. The applicable margin ranges from 225 to 350 basis points for LIBOR borrowings, and 125 to 250 basis points with respect to base rate borrowings, based on our consolidated EBITDA, ratio of debt to consolidated EBITDA, and consolidated fixed charge coverage ratio, each as defined in the ABL Facility. As of September 30, 2017, the applicable margin for borrowings under our ABL Facility was 325 basis points with respect to LIBOR borrowings and 225 basis points with respect to base rate borrowings. In addition, we are required to pay a commitment fee on the unused portion of the ABL Facility ranging from 37.5 to 62.5 basis points, based on the ratio of debt to consolidated EBITDA, as defined in the ABL Facility. The applicable commitment fee as of September 30, 2017 was 50 basis points.

The ABL Facility is a senior secured obligation, secured by first liens on all of our U.S. tangible and intangible assets and a portion of the capital stock of our non-U.S. subsidiaries has also been pledged as collateral. The ABL Facility contains customary operating covenants and certain restrictions including, among other things, the incurrence of additional debt, liens, dividends, asset sales, investments, mergers, acquisitions, affiliate transactions, stock repurchases and other restricted payments. The ABL Facility also requires compliance with a fixed charge coverage ratio if availability under the ABL Facility falls below $15.0 million. In addition, the ABL Facility contains customary events of default, including, without limitation, a failure to make payments under the facility, acceleration of more than $25.0 million of other indebtedness, certain bankruptcy events and certain change of control events.

In October 2017, we entered into an Amended and Restated Credit Agreement (the "Amended ABL Facility") which amends and restates our previous ABL Facility and increases the borrowing capacity from $90.0 million to $150.0 million, while also reducing applicable borrowing rates and fee terms. As of October 31, 2017, our total borrowing base under the Amended ABL Facility was $147.3 million, of which, $60.9 million was drawn, resulting in availability of $86.4 million. Under the terms of the Amended ABL Facility, the applicable margin rate for borrowings ranges from 175 to 275 basis points for LIBOR borrowings, and 75 to 175 basis points for base rate borrowings, based on the ratio of debt to consolidated EBITDA. In addition, we are required to pay a commitment fee on the unused portion of the Amended ABL Facility ranging from 25 to 37.5 basis points, based on the ratio of debt to consolidated EBITDA.

The Amended ABL Facility also extends the term to October 2022, conditional upon the satisfactory settlement of the outstanding $100.0 million of 2021 Convertible Notes that mature in December 2021. In the event that the 2021 Convertible Notes are not satisfied in accordance with the Amended ABL Facility requirements, the Amended ABL Facility term will expire in September 2021. Subject to certain conditions, the Amended ABL Facility can be increased up to a maximum capacity of $225.0 million.

Other Debt. Our foreign subsidiaries in Italy and India maintain local credit arrangements consisting primarily of lines of credit which are renewed on an annual basis. In December 2016, we terminated our revolving line of credit in Brazil and repaid the outstanding balance. We utilize local financing arrangements in our foreign operations in order to provide short-term local liquidity needs. Advances under these short-term credit arrangements are typically based on a percentage of the subsidiary's accounts receivable or firm contracts with certain customers. We had no outstanding loan balances under these arrangements at September 30, 2017 and December 31, 2016.

At September 30, 2017, we had letters of credit issued and outstanding which totaled $6.0 million that are collateralized by $6.6 million in restricted cash. Additionally, our foreign operations had $18.7 million outstanding in letters of credit and other guarantees, primarily issued under the line of credit in Italy as well as certain letters of credit that are collateralized by $1.4 million in restricted cash. At September 30, 2017 and December 31, 2016, prepaid expenses and other current assets in the accompanying balance sheet includes restricted cash related to letters of credit of $8.0 million and $7.4 million, respectively.

Our financial instruments include cash and cash equivalents, receivables, payables and debt. We believe the carrying values of these instruments, with the exception of our 2017 Convertible Notes and 2021 Convertible Notes, approximated their fair values at September 30, 2017 and December 31, 2016. The estimated fair value of our 2017 Convertible Notes was $83.0 million at September 30, 2017 and $84.4 million at December 31, 2016, and the estimated fair value of our 2021 Convertible Notes was $130.4 million at September 30, 2017 and $110.5 million at December 31, 2016, based on quoted market prices at these respective dates.

Note 9 – Income Taxes

The provision for income taxes for the first nine months of 2017 was a $6.9 million expense compared to a $13.3 million benefit for the first nine months of 2016. In both periods, the provision for income taxes was negatively impacted by pre-tax losses in certain international jurisdictions, most notably Australia, including $6.9 million of impairment charges in 2016, for which the recording of a tax benefit is not permitted.

We file income tax returns in the United States and several non-U.S. jurisdictions and are subject to examination in the various jurisdictions in which we file. We are no longer subject to income tax examinations for U.S. federal and substantially all state jurisdictions for years prior to 2012 and for substantially all foreign jurisdictions for years prior to 2008. We are currently under examination by the United States federal tax authorities for tax years 2014 and 2015. During the second quarter of 2017, we received a Revenue Agent Report from the United States Internal Revenue Service ("IRS") disallowing a deduction claimed on our 2015 tax return associated with the forgiveness of certain inter-company balances due from our Brazilian subsidiary and assessing tax due of approximately $3.9 million. We submitted our response to the IRS in the third quarter of 2017 and are proceeding with the tax appeals process. We believe our tax position is properly reported in accordance with applicable U.S. tax laws and regulations and intend to vigorously defend our position through the tax appeals process.

We are also under examination by various tax authorities in other countries and certain foreign jurisdictions have challenged the amount of taxes due for certain tax periods. These audits are in various stages of completion. We fully cooperate with all audits, but defend existing positions vigorously. We evaluate the potential exposure associated with various filing positions and record a liability for tax contingencies as circumstances warrant. Although we believe all tax positions are reasonable and properly reported in accordance with applicable tax laws and regulations in effect during the periods involved, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and tax contingency accruals.

Note 10 – Commitments and Contingencies

In the ordinary course of conducting our business, we become involved in litigation and other claims from private party actions, as well as judicial and administrative proceedings involving governmental authorities at the federal, state and local levels. While the outcome of litigation or other proceedings against us cannot be predicted with certainty, except as described below, management does not consider it reasonably possible that a loss resulting from such litigation or other proceedings, in excess of any amounts accrued or covered by insurance, has been incurred that is expected to have a material adverse impact on our consolidated financial statements.

Escrow Claims Related to the Sale of the Environmental Services Business

Under the terms of the March 2014 sale of our previous Environmental Services business to Ecoserv, LLC ("Ecoserv"), $8.0 million of the sales price was withheld and placed in an escrow account to satisfy claims for possible breaches of representations and warranties contained in the sale agreement. For the amount withheld in escrow, $4.0 million was scheduled for release to Newpark at each of the nine-month and 18-month anniversary of the closing. In December 2014, we received a letter from Ecoserv asserting that we had breached certain representations and warranties contained in the sale agreement, including failing to disclose operational problems and service work performed on injection/disposal wells and increased barge rental costs. The letter indicated that Ecoserv expected the damages associated with these claims to exceed the escrow amount. Following a further exchange of letters, in July of 2015 we filed an action against Ecoserv in state court in Harris County, Texas, seeking release of the escrow funds. Thereafter, Ecoserv filed a counterclaim seeking recovery in excess of the escrow funds based on the alleged breach of representations and covenants in the sale agreement. Ecoserv also alleges that we committed fraud in connection with the sale transaction. Ecoserv opposed Newpark's motion to have the case tried before the judge (without a jury) as provided for in the sale agreement and sought to have our counsel disqualified from the case. The Court ruled in our favor on both matters. Discovery in the case has provided more information about Ecoserv's claims, which include, among other things, alleged inadequate disclosures regarding the condition of a disposal cavern (at the time of the execution of the sale agreement and again as it relates to the time period between execution of the sale agreement and closing) and the lack of appropriate reserves/accruals/provisions in the financial statements of the business relating to certain regulatory obligations (such as plug and abandonment costs for injection wells and costs associated with a solids drying facility). Ecoserv is seeking to use a damage model for most of its damages based on its calculation of the difference between (a) the value of the business at closing, and (b) the sales price ($100.0 million), and has claimed damages of approximately $20.0 million. The case had been scheduled for trial in August 2017, but was postponed until December 2017. While there can be no certainty regarding the outcome of a trial, we strongly disagree with Ecoserv's position on its contract and fraud claims and calculation of damages. We also believe that the sale agreement both limits the amount of any recoverable damages and precludes most of the damages Ecoserv asserts for breach of the sale agreement. While it is reasonably possible that following the trial, the judge may rule against us on one or more of the claims asserted by Ecoserv, the amount of any such loss cannot be reasonably estimated at this time. As a result, we have not concluded that a loss is considered probable at this time and no liability for any such loss has been recorded. We intend to vigorously defend our position while pursuing release of the entire $8.0 million in escrow. Litigation expenses related to this matter are included in corporate office expenses in operating income.

Note 11 – Segment Data

Summarized operating results for our reportable segments are shown in the following table (net of inter-segment transfers):

	Third Quarter		First Nine Months	
(In thousands)	2017	2016	2017	2016
Revenues				
Fluids systems	$166,726	$89,097	$453,399	$283,901
Mats and integrated services	34,937	15,457	89,975	50,512
Total Revenues	$201,663	$104,554	$543,374	$334,413
Operating Income (Loss)				
Fluids systems	$7,930	$(8,995)	$20,145	$(36,126)
Mats and integrated services	10,941	882	28,762	8,607
Corporate office	(8,989)	(6,942)		