NEWPARK RESOURCES INC
Form 10-Q
May 01, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from __________ to __________.

Commission File No. 1-2960

Newpark Resources, Inc.

(Exact name of registrant as specified in its charter)

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

9320 Lakeside Boulevard, Suite 100

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 or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “small reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer √ Accelerated filer___

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

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

Yes No√

As of April 23, 2015, a total of 84,108,492 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 MONTHS ENDED

MARCH 31, 2015

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended. We also may provide oral or written forward-looking statements in other materials we release to the public. The words "anticipates," "believes," "estimates," "expects," "plans," "intends," and similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying them. These forward-looking statements reflect the current views of our management; however, various risks, uncertainties and contingencies, including the risks identified in Item 1A, "Risk Factors," in Part I of our Annual Report on Form 10-K for the year ended December 31, 2014, and those set forth from time to time in our filings with the Securities and Exchange Commission, could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, these statements, including the success or failure of our efforts to implement our business strategy.

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

For further information regarding these and other factors, risks and uncertainties affecting us, we refer you to the risk factors set forth in Item 1A, “Risk Factors”, in Part I of our Annual Report on Form 10-K for the year ended December 31, 2014.

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

(In thousands, except share data)	**March 31, 2015**	**December 31, 2014**
ASSETS		
Cash and cash equivalents	$91,692	$85,052
Receivables, net	260,718	318,600
Inventories	183,821	196,556
Deferred tax assets	7,563	11,013
Prepaid expenses and other current assets	12,369	12,615
Total current assets	556,163	623,836
Property, plant and equipment, net	291,713	283,361
Goodwill	90,032	91,893
Other intangible assets, net	14,239	15,666
Other assets	7,022	5,366
Total assets	$959,169	$1,020,122
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt	$9,909	$11,648
Accounts payable	77,917	108,242
Accrued liabilities	39,467	53,342
Total current liabilities	127,293	173,232
Long-term debt, less current portion	172,497	172,498
Deferred tax liabilities	35,849	37,694
Other noncurrent liabilities	10,707	11,240
Total liabilities	346,346	394,664
Commitments and contingencies (Note 8)		
Common stock, $0.01 par value, 200,000,000 shares authorized and 99,286,706 and 99,204,318 shares issued, respectively	993	992
Paid-in capital	524,492	521,228
Accumulated other comprehensive loss	(49,201)	(31,992)

Retained earnings	263,609	262,616
Treasury stock, at cost; 15,172,510 and 15,210,233 shares, respectively	(127,070)	(127,386)
Total stockholders' equity	612,823	625,458
Total liabilities and stockholders' equity	959,169	$1,020,122

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

(In thousands, except per share data)	**Three Months Ended March 31, 2015**	**2014**
Revenues	$208,464	$242,824
Cost of revenues	176,634	196,560
Selling, general and administrative expenses	25,978	25,523
Other operating income, net	(276)	(16)
Operating income	6,128	20,757
Foreign currency exchange loss	1,564	54
Interest expense, net	2,255	2,920
Income from continuing operations before income taxes	2,309	17,783
Provision for income taxes	1,316	6,041
Income from continuing operations	993	11,742
Income from discontinued operations, net of tax	-	1,152
Gain from disposal of discontinued operations, net of tax	-	22,117
Net income	$993	$35,011
Income per common share -basic:		
Income from continuing operations	$0.01	$0.14
Income from discontinued operations	-	0.27
Net income	$0.01	$0.41
Income per common share -diluted:		
Income from continuing operations	$0.01	$0.13
Income from discontinued operations	-	0.23
Net income	$0.01	$0.36

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

(In thousands)	Three Months Ended March 31, 2015	2014
Net income	$993	$35,011
Foreign currency translation adjustments	(17,209)	1,205
Comprehensive income (loss)	$(16,216)	$36,216

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

(In thousands)	Three Months Ended March 31, 2015	2014
Cash flows from operating activities:		
Net income	$993	$35,011
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	10,527	10,287
Stock-based compensation expense	2,964	2,840
Provision for deferred income taxes	1,775	(13,108)
Net provision for doubtful accounts	721	173
Gain on sale of a business	-	(33,974)
(Gain) loss on sale of assets	11	(362)
Excess tax benefit from stock-based compensation	(16)	-
Change in assets and liabilities:		
(Increase) decrease in receivables	45,869	(1,080)
(Increase) decrease in inventories	7,620	(9,229)
Increase in other assets	(265)	(3,858)
Decrease in accounts payable	(29,353)	(1,248)
Increase (decrease) in accrued liabilities and other	(9,250)	18,142
Net cash provided by operating activities	31,596	3,594
Cash flows from investing activities:		
Capital expenditures	(18,505)	(18,509)
Proceeds from sale of property, plant and equipment	298	754
Proceeds from sale of a business	-	89,167
Net cash (used in) provided by investing activities	(18,207)	71,412
Cash flows from financing activities:		
Borrowings on lines of credit	1,906	47,562
Payments on lines of credit	(2,394)	(45,113)
Debt issuance costs	(1,456)	-
Other financing activities	(12)	(13)
Proceeds from employee stock plans	305	34
Purchases of treasury stock	-	(13,123)
Excess tax benefit from stock-based compensation	16	-
Net cash used in financing activities	(1,635)	(10,653)
Effect of exchange rate changes on cash	(5,114)	(6)
Net increase in cash and cash equivalents	6,640	64,347
Cash and cash equivalents at beginning of year	85,052	65,840

Cash and cash equivalents at end of period	$91,692	$130,187
Cash paid for:		
Income taxes (net of refunds)	$4,846	$9,500
Interest	$661	$667

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

NEWPARK RESOURCES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Newpark Resources, Inc. and our wholly-owned subsidiaries, which we refer to as “we,” “our” or “us,” have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission (“SEC”), and do not include all information and footnotes required by the accounting principles generally accepted in the United States (“U.S. GAAP”) for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014. Our fiscal year end is December 31 and our first quarter represents the three month period ended March 31. The results of operations for the first quarter of 2015 are not necessarily indicative of the results to be expected for the entire year. Unless otherwise stated, all currency amounts are stated in U.S. dollars.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of March 31, 2015 and the results of our operations and cash flows for the first quarter of 2015 and 2014. All adjustments are of a normal recurring nature. Our balance sheet at December 31, 2014 is derived from the audited consolidated financial statements at that date.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For further information, see Note 1 in our Annual Report on Form 10-K for the year ended December 31, 2014.

New Accounting Standards

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

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for us in the first quarter of 2017. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. In April 2015, the FASB tentatively decided to defer for one year the effective date of the new guidance as well as to permit entities to early adopt the new guidance. We are currently evaluating the impact of these amendments and the transition alternatives on our consolidated financial statements.

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

Note 2 – Discontinued Operations

In 2013, we initiated a process to sell our Environmental Services business, and in March of 2014 we completed the sale of the business for $100 million in cash, subject to adjustment based on actual working capital conveyed at closing. Cash proceeds from the sale were $89.8 million in 2014, net of transaction related expenses, including the adjustment related to final working capital conveyed at closing. The agreement significantly limits our post-closing environmental obligations, including those related to the waste transfer and disposal facilities. In addition, $8 million of the sales price was withheld in escrow associated with transaction representations, warranties and indemnities, with $4 million scheduled to be released at each of the nine month and 18 month anniversary of the closing. In December 2014, the buyer made certain claims for indemnification under the terms of the agreement, which defers the release of the escrow funds until such claims are resolved. We believe the buyer's claims are without merit and intend to vigorously pursue resolution. As a result of the sale transaction, we recorded a gain on the disposal of the business of $34.0 million ($22.1 million after-tax) in the first quarter of 2014. The results of operations for this business have been classified as discontinued operations for all periods presented.

Summarized results of operations from discontinued operations are as follows:

(In thousands)	**First Quarter 2015**	**2014**
Revenues	$ -	$ 11,744
Income from discontinued operations before income taxes	-	1,770
Income from discontinued operations, net of tax	-	1,152
Gain from disposal of discontinued operations before income taxes	-	33,974
Gain from disposal of discontinued operations, net of tax	-	22,117

Note 3 – Earnings per Share

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

(In thousands, except per share data)	First Quarter 2015	2014
Basic EPS:		
Income from continuing operations	$993	$11,742
Weighted average number of common shares outstanding	82,299	84,743
Basic income from continuing operations per common share	$0.01	$0.14
Diluted EPS:		
Income from continuing operations	$993	$11,742
Assumed conversions of Senior Notes	-	1,261
Adjusted income from continuing operations	$993	$13,003
Weighted average number of common shares outstanding-basic	82,299	84,743
Add: Dilutive effect of stock options and restricted stock awards	1,505	1,674
Dilutive effect of Senior Notes	-	15,682
Diluted weighted average number of common shares outstanding	83,804	102,099
Diluted income from continuing operations per common share	$0.01	$0.13
Stock options and restricted stock excluded from calculation of diluted earnings per share because anti-dilutive for the period	954	627

For the first quarter of 2015 and 2014, we had weighted average dilutive stock options and restricted stock outstanding of approximately 4.5 million shares and 5.0 million shares, respectively. The resulting net effect of stock options and restricted stock were used in calculating diluted earnings per share for the period. For the first quarter of 2015, we excluded the assumed conversion of the Senior Notes in calculating diluted earnings per share as the effect was anti-dilutive for the period.

Note 4 – Treasury Stock

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

During the first quarter of 2014, 1,095,413 shares were repurchased for an average price of approximately $11.84 per share, including commissions. There were no shares repurchased during the first quarter of 2015. At March 31, 2015, there was $42.7 million of authorization remaining under the program.

Note 5 – Receivables

Receivables - Receivables consist of the following:

(In thousands)	**March 31, 2015**	**December 31, 2014**
Gross trade receivables	$ 238,368	$ 299,962
Allowance for doubtful accounts	(6,232)	(5,458)
Net trade receivables	232,136	294,504
Other receivables	28,582	24,096
Total receivables, net	$ 260,718	$ 318,600

Other receivables include $19.3 million and $14.5 million for value added, goods and service taxes related to foreign jurisdictions and other tax related receivables as of March 31, 2015 and December 31, 2014, respectively. In addition, other receivables at March 31, 2015 and December 31, 2014 include $8.0 million associated with the Environmental Services business proceeds held in escrow as described in Note 2 above.

Note 6 – Inventories

Inventories - Inventories consist of the following:

(In thousands)	**March 31, 2015**	**December 31, 2014**

Raw materials:		
Drilling fluids	$ 144,541	$ 152,076
Mats	1,335	1,531
Total raw materials	145,876	153,607
Blended drilling fluids components	36,851	40,971
Finished goods- mats	1,094	1,978
Total	$ 183,821	$ 196,556

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

Note 7 – Financing Arrangements and Fair Value of Financial Instruments

Our financing arrangements include $172.5 million of unsecured convertible senior notes (“Senior Notes”) and a $200.0 million revolving credit facility which can be increased to a maximum capacity of $325.0 million. At March 31, 2015, we had no outstanding borrowings under the revolving credit facility. Additionally, our foreign operations had $9.9 million outstanding under lines of credit and other borrowings. The Senior Notes bear interest at a rate of 4.0% per year, payable semi-annually in arrears on April 1 and October 1 of each year. Holders may convert the Senior Notes at their option at any time prior to the close of business on the business day immediately preceding the October 1, 2017 maturity date. The conversion rate is initially 90.8893 shares of our common stock per $1,000 principal amount of Senior Notes (equivalent to an initial conversion price of $11.00 per share of common stock), subject to adjustment in certain circumstances. Upon conversion, the Senior Notes will be settled in shares of our common stock. In 2015, holders converted an insignificant amount of Senior Notes into shares of our common stock. We may not redeem the Senior Notes prior to their maturity date.

In March 2015, we entered into a Third Amended and Restated Credit Agreement (the "Credit Agreement") which provides for a $200 million revolving loan facility available for borrowings and letters of credit and expires in March 2020. The Credit Agreement has a springing maturity date that will accelerate the maturity of the credit facility to June 2017 if the Senior Notes have not either been repurchased, redeemed, converted and/or refinanced in full or the Company has not provided sufficient funds to an escrow agent to repay the Senior Notes in full on their maturity date. Under the terms of the Credit Agreement, we can elect to borrow at a variable interest rate either based on LIBOR plus a margin based on our consolidated leverage ratio, ranging from 175 to 275 basis points, or at a variable interest rate based on the greatest of: (a) prime rate, (b) the federal funds rate in effect plus 50 basis points, or (c) the Eurodollar rate for a Eurodollar Loan with a one-month interest period plus 100 basis points, in each case plus a margin ranging from 75 to 175 basis points based on our consolidated leverage ratio. The applicable margins on LIBOR borrowings and Eurodollar borrowings on March 31, 2015 were 100 and 200 basis points, respectively. In addition, we are required to pay a commitment fee on the unused portion of the Credit Agreement of 37.5 basis points. The Credit Agreement contains customary financial and operating covenants, including a consolidated leverage ratio, a senior secured leverage ratio and an interest coverage ratio. The Credit Agreement also limits the payment of dividends on our common stock, the repurchase of our common stock and the conversion, redemption, defeasance or refinancing of the Senior Notes. We were in compliance with these covenants as of March 31, 2015.

The Credit Agreement is a senior secured obligation, secured by first liens on all of our U.S. tangible and intangible assets. Additionally, the Credit Agreement is guaranteed by certain of our U.S. subsidiaries and a portion of the capital stock of our non-U.S. subsidiaries has also been pledged as collateral.

Our financial instruments include cash and cash equivalents, receivables, payables and debt. We believe the carrying values of these instruments, with the exception of our Senior Notes, approximated their fair values at March 31, 2015 and December 31, 2014. The estimated fair value of our Senior Notes was $196.2 million at March 31, 2015 and $192.3 million at December 31, 2014, based on quoted market prices at these respective dates.

Note 8 – 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. During the second quarter of 2014, a lawsuit was filed by Jesse Davida, a former employee, in Federal Court in Texas against Newpark Drilling Fluids LLC, alleging violations of the Fair Labor Standards Act ("FLSA"). The plaintiff seeks damages and penalties for the Company's alleged failure to: properly classify its field service employees as "non-exempt" under the FLSA; and pay them on an hourly basis (including overtime). The plaintiff seeks recovery on his own behalf, and seeks certification of a class of similarly situated employees. The Court has conditionally certified a class of plaintiffs as those working as fluid service technicians for Newpark Drilling Fluids for the past 3 years. Beginning in early March of 2015, notification was given to 658 current and former fluid service technician employees of Newpark regarding this litigation and those individuals have the opportunity to "opt-in" to the *Davida* litigation. The opt-in period will close in early May of 2015. As of April 29, 2015, 83 individuals have joined the *Davida* litigation. Once the opt-in period has closed, the proceedings will transition to addressing the merits of the claims. A second case was filed by Josh Christensen in the fourth quarter of 2014, in Federal Court in Texas alleging that individuals treated as independent contractors should have been classified as employees and, as such, are entitled to assert claims for alleged violations of the FLSA (similar to the claims asserted in the *Davida* matter). Five additional plaintiffs joined this litigation after it was filed. In March of 2015, the Court denied the plaintiffs' motion for conditional class certification. Counsel for the plaintiffs are considering whether to proceed with the litigation on the basis of individual claims, appeal the ruling of the Court, or take some other course of action. Similar cases have been filed against other companies in the oil and gas services industry, including some of our competitors. We are monitoring developments in those cases as well. Because these cases remain in the early stages, we cannot predict with any degree of certainty the outcome of the litigation at this time and, as a result, cannot estimate any possible loss or range of loss. In the opinion of management, any liability in these matters should not have a material effect on our consolidated financial statements.

Note 9 – Segment Data

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

(In thousands)	First Quarter 2015	2014
Revenues		
Fluids systems	$171,902	$211,400
Mats & integrated services	36,562	31,424
Total Revenues	$208,464	$242,824
Operating Income (loss)		
Fluids systems	$(1,702)	$15,740
Mats & integrated services	15,647	13,373
Corporate office	(7,817)	(8,356)
Operating Income	$6,128	$20,757

In response to the significant declines in industry activity in North America, we have initiated cost reduction programs including workforce reductions. Through April 2015, we have reduced our North American employee base by 306 (approximately 25%) since December 31, 2014, in addition to eliminating most contract positions. As a result, we recognized a charge for employee termination costs of $2.9 million in the first quarter of 2015, of which $2.2 million is reported in cost of revenues and $0.7 million is reported in selling, gen