NEWPARK RESOURCES INC
Form 10-Q
November 09, 2006

Table of Contents

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 September 30, 2006
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.)
3850 N. Causeway, Suite 1770 Metairie, Louisiana	**70002**
(Address of principal executive offices)	(Zip Code)

(504) 838-8222
(Registrant s telephone number, including area code)
None
(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 þ No o

Indicate by check mark whether the registrant is a large accelerated file, 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 o Accelerated filer þ Non-accelerated filer o

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

Yes o No þ

As of November 6, 2006, a total of 89,432,473 shares of Common Stock, $0.01 par value per share, were outstanding.

Table of Contents

EXPLANATORY NOTE

This Quarterly Report on Form 10-Q includes restated consolidated financial statements for the three- and nine-month periods ended September 30, 2005. For discussion of the reasons for and the effect of the restatement, please refer to Amendment No. 2 to our Annual Report on Form 10-K/A for the year ended December 31, 2005, which we refer to as the 2005 Annual Report. The Explanatory Note contained in the 2005 Annual Report, as well as Note A to the restated consolidated financial statements included in the 2005 Annual Report, describe the circumstances and results of the restatement of our consolidated financial statements in connection with the period covered by the 2005 Annual Report, which includes the consolidated financial statements for the quarter and nine months ended September 30, 2005. Note Q to the restated consolidated financial statements included in the 2005 Annual Report includes a summary of the restated consolidated financial statements for the three- and nine-month periods ended September 30, 2005.

NEWPARK RESOURCES, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE- AND NINE-MONTH PERIODS ENDED
September 30, 2006

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. 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, ar 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 below or those in Item 1A, Risk Factors, in Part II of this Quarterly Report on Form 10-Q and in Item 1A, Risk Factors, in Part I of Amendment No. 2 to our Annual Report on Form 10-K/A for the year ended December 31, 2005, 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.

Among the risks and uncertainties that could cause future events and results to differ materially from those we anticipate in the forward-looking statements included in this Quarterly Report on Form 10-Q are the following:

a material decline in the level of oil and gas exploration and production and any reduction in the industry s willingness to spend capital on environmental and oilfield services;

material changes in oil and gas prices, expectations about future prices, the cost of exploring for, producing and delivering oil and gas, the discovery rate of new oil and gas reserves and the ability of oil and gas companies to raise capital;

changes in domestic and international political, military, regulatory and economic conditions;

a rescission or relaxation of government regulations affecting exploration and production (E&P) and Naturally Occurring Radioactive Material (NORM) waste disposal;

changes in existing regulations related to E&P and NORM waste disposal;

failure of our patents or other proprietary technology to prevent our competitors from developing substantially similar technology, which would reduce any competitive advantages we may have from these patents and proprietary technology;

failure to keep pace with the continual and rapid technological developments in our industries;

the highly competitive nature of our business;

failure of our investments in new businesses, new technology or new products and services to achieve sales and profitability levels that justify our investment in them, which could result in these investments placing downward pressure on our margins, the recording of a material impairment, or our disposing of these investments at a loss;

unavailability of critical supplies or equipment in the oil and gas industry and personnel trained to operate this equipment or provide our services;

increases in our costs, including raw materials costs, transportation costs and personnel costs which are not fully offset by price increases to our customers, resulting in downward pressure on our operating margins;

failure to gain continued acceptance or market share for our products and services, including our DeepDrill® and FlexDrill technology, our Dura-Base and Bravo mats;

inability to continue in effect the permits necessary to operate our E&P waste and non-hazardous waste disposal wells;

adverse weather conditions that could disrupt drilling operations or our ability to service our customers and reduce the demand for our services;

failure to comply with any of the numerous federal, state and local laws, regulations and policies that govern environmental protection, zoning and other matters applicable to our business, or changes in these regulations and policies;

exposure to potential environmental or regulatory liability, which could require us to pay substantial amounts with respect to these liabilities, including costs to clean up and close contaminated sites;

inability to maintain adequate insurance against risks in our business at economical rates, including in connection with the class action lawsuits filed against us and our current and former directors and officers;

the impact of those class action lawsuits and the shareholder derivative actions on our business and results of operations;

social, political and economic situations in foreign countries where we operate, including compliance with a wide variety of complex U.S. and foreign laws, treaties and regulations, unexpected changes in regulatory environments, inadequate protection of intellectual property, legal uncertainties, timing delays and expenses associated with tariffs, export licenses and other trade barriers;

Table of Contents

consequences of significant changes in interest rates and currency exchange rates;

our inability to retire or refinance our long-term debt at or before its maturity, which could be affected by conditions in financial markets or our own financial condition at a future time, and our inability to obtain any replacement long-term financing on terms as favorable to us as under our current financing, if at all; and

the impact of shutting down the operations of Newpark Environmental Water Solutions, LLC, and the related charges that are expected to be incurred in connection with that shut down (see Note 6, Impairment of Long-Lived Assets, to our consolidated financial statements included in this Quarterly Report on Form 10-Q).

Table of Contents

PART I

ITEM 1. Unaudited Consolidated Financial Statements

Newpark Resources, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	September 30, 2006	December 31, 2005
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,215	$ 7,989
Trade accounts receivable, less allowance of $1,706 at September 30, 2006 and $804 at December 31, 2005	162,098	137,174
Notes and other receivables	2,258	12,623
Inventories	113,395	88,731
Deferred tax asset	18,735	16,231
Prepaid expenses and other current assets	12,868	13,448
Total current assets	315,569	276,196
Property, plant and equipment, at cost, net of accumulated depreciation	234,157	238,409
Goodwill	118,252	116,841
Other intangible assets, net of accumulated amortization	12,532	12,809
Other assets	7,656	7,039
	$ 688,166	$ 651,294
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Foreign bank lines of credit	$ 11,412	$ 10,890
Current maturities of long-term debt	4,852	12,696
Accounts payable	41,003	47,371
Accrued liabilities	48,154	40,731
Total current liabilities	105,421	111,688
Long-term debt, less current portion	204,619	185,933
Deferred tax liability	9,520	4,211
Other non-current liabilities	4,031	2,737
Stockholders equity:		
Common Stock, $.01 par value, 100,000,000 shares authorized, 89,432,473 and 88,436,112 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	894	884
Paid-in capital	443,385	436,636
Unearned restricted stock compensation		(235)

Accumulated other comprehensive income		8,629		7,616
Retained deficit		(88,333)		(98,176)
Total stockholders equity		364,575		346,725
	$	688,166	$	651,294

See Accompanying Notes to Unaudited Consolidated Financial Statements

6

Table of Contents

Newpark Resources, Inc.
Consolidated Statements of Income
For the Three- and Nine-Month Periods Ended September 30
(Unaudited)

(In thousands, except per share data)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
		(Restated)		(Restated)
Revenues	$ 170,142	$ 139,143	$ 501,738	$ 409,692
Cost of revenues	144,821	126,067	440,254	367,343
	25,321	13,076	61,484	42,349
General and administrative expenses	5,050	2,482	13,842	7,186
Impairment loss	17,804		17,804	
Operating income	2,467	10,594	29,838	35,163
Foreign currency exchange loss (gain)	149	(352)	(158)	(343)
Interest income	(123)	(126)	(268)	(250)
Interest expense	6,168	4,122	15,232	12,398
(Loss) income before income taxes	(3,727)	6,950	15,032	23,358
(Benefit) provision for income taxes	(1,462)	1,678	5,189	7,582
Net (loss) income	(2,265)	5,272	9,843	15,776
Preferred stock dividends		59		509
Net (loss) income applicable to common and common equivalent shares	$ (2,265)	$ 5,213	$ 9,843	$ 15,267
Basic and diluted (loss) income per common and common equivalent share	$ (0.03)	$ 0.06	$ 0.11	$ 0.18

See Accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

Newpark Resources, Inc.
Consolidated Statements of Comprehensive Income
For the Three- and Nine-Month Periods Ended September 30
(Unaudited)

(In thousands)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005 (Restated)	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005 (Restated)
Net (loss) income	$ (2,265)	$ 5,272	$ 9,843	$ 15,776
Changes in interest rate swap and cap (net of tax of $204)	(378)		(378)	
Foreign currency translation adjustments	426	1,878	1,391	(445)
Comprehensive (loss) income	$ (2,217)	$ 7,150	$ 10,856	$ 15,331

See Accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

Newpark Resources, Inc.
Consolidated Statements of Cash Flows
For the Nine-Month Periods Ended September 30,
(Unaudited)

(In thousands)	2006	2005 (Restated)
Cash flows from operating activities:		
Net income	$ 9,843	$ 15,776
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	20,134	17,658
Impairment loss	17,804	
Stock-based compensation expense	1,711	552
Provision for deferred income taxes	2,564	6,851
Gain on sale of assets	(614)	(549)
Change in assets and liabilities:		
Increase in accounts and notes receivable	(20,783)	(32,963)
(Increase) decrease in inventories	(25,541)	395
Increase in other assets	(3,464)	(5,326)
(Decrease) increase in accounts payable	(6,279)	1,822
Increase in accrued liabilities and other	12,112	14,618
Net cash provided by operating activities	7,487	18,834
Cash flows from investing activities:		
Capital expenditures	(29,408)	(25,348)
Proceeds from sale of property, plant and equipment	1,210	1,022
Insurance proceeds from property, plant and equipment claim	3,471	
Acquisitions, net of cash received		(840)
Net cash used in investing activities	(24,727)	(25,166)
Cash flows from financing activities:		
Net borrowings on lines of credit	17,078	6,415
Long-term borrowings	150,000	4,855
Payments on notes payable and long-term debt	(156,863)	(5,890)
Preferred stock dividends paid in cash		(375)
Proceeds from exercise of stock options and ESPP	4,385	4,942
Tax benefit from exercise of stock options	640	
Net cash provided by financing activities	15,240	9,947
Effect of exchange rate changes	226	(319)
Net (decrease) increase in cash and cash equivalents	(1,774)	3,296
Cash and cash equivalents at beginning of period	7,989	7,022

Cash and cash equivalents at end of period	$ 6,215	$ 10,318

See Accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

NEWPARK RESOURCES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation and Significant Accounting Policies

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments necessary to present fairly the financial position of Newpark Resources, Inc. (Newpark) as of September 30, 2006, and the results of its operations and its cash flows for the three- and nine-month periods ended September 30, 2006 and 2005. All adjustments are of a normal recurring nature. The September 30, 2005 interim consolidated financial statements have been restated. For discussion of the reasons for and the effect of the restatement, please refer to Amendment No. 2 to Newpark s Annual Report on Form 10-K/A for the year ended December 31, 2005, which is referred to as the 2005 Annual Report. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes filed in Amendment No. 2 to Newpark s Annual Report on Form 10-K/A for the year ended December 31, 2005. The results of operations for the three- and nine-month periods ended September 30, 2006 are not necessarily indicative of the results to be expected for the entire year. Newpark has reclassified certain amounts previously reported to conform with the presentation at September 30, 2006.

Effective January 1, 2006, Newpark adopted Statement of Financial Accounting Standards (FAS) No. 123 (revised 2004), Share-Based Payment (FAS 123(R)), using a modified prospective method of application. FAS 123(R) requires that all share-based payments to employees, including grants of employee stock options, be recognized in the income statement based on their fair values. Newpark uses the Black-Scholes option-pricing model for measuring the fair value of stock options granted. Under the provisions of FAS 123(R) and using the modified prospective application method, Newpark recognizes stock-based compensation based on the grant date fair value, net of an estimated forfeiture rate, for all share-based awards granted after December 31, 2005, and granted prior to, but not yet vested as of December 31, 2005, on a straight-line basis over the requisite service periods of the awards, which is generally equivalent to the vesting term. Under the modified prospective application, the results of prior periods are not restated.

Prior to January 1, 2006, Newpark accounted for stock-based compensation using the intrinsic value method under Accounting Principles Board Opinion No. 25 (APB 25) and related interpretations. Under APB 25, compensation cost is recognized only if the exercise price of an employee stock option is less than the fair value of the underlying stock on the measurement date.

FAS 123(R) amends FAS No. 95, Statement of Cash Flows, to require reporting of realized excess tax benefits as a financing cash flow, rather than as a reduction of taxes paid. These excess tax benefits result from tax deductions in excess of the cumulative compensation expense recognized for options exercised.

On March 29, 2005, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin 107 (SAB 107) to address certain issues related to FAS 123(R). SAB 107 provides guidance on transition methods, income tax effects and other share-based payment topics, and Newpark applied this guidance in its adoption of FAS 123(R).

On November 10, 2005, the Financial Accounting Standards Board (the FASB) issued FASB Staff Position No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards (FSP 123R-3). FSP 123R-3 provides an alternative transition method for establishing the beginning balance of the additional paid-in-capital pool (APIC pool) related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of FAS 123(R). Newpark elected to adopt this alternative transition method in establishing its beginning APIC pool at January 1, 2006. See Note 2 for further information on stock-based compensation.

Effective January 1, 2006, Newpark adopted FAS 151, Inventory Costs-an amendment of ARB No. 43, Chapter 4 (FAS 151), which clarified the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). These items must be recognized as current-period charges regardless of whether they meet a criterion of so abnormal. FAS 151 also requires that allocation of fixed production overheads to costs of conversion be based on the normal capacity of production facilities. The adoption of FAS 151 had no material impact on Newpark s financial results.

Effective January 1, 2006, Newpark adopted FAS No. 154, Accounting Changes and Error Corrections (FAS 154). FAS 154 replaces APB 20, Accounting Changes, and FAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and establishes retrospective application as the required method for reporting a change in accounting principle. FAS 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed. The adoption of FAS 154 had no material impact on Newpark s consolidated financial results, but was considered in preparing the restated historical consolidated financial statements as disclosed in Amendment No. 2 to Newpark s Annual Report on Form 10-K/A filed for the year ended December 31, 2005.

On July 13, 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 applies to all tax positions related to income taxes subject to Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative effect adjustment recorded to the beginning balance of retained earnings. FIN 48 is effective for fiscal years beginning after December 15, 2006 and will be adopted by Newpark on January 1, 2007. Newpark is reviewing the new standard and has not determined the impact, if any, the adoption of FIN 48 will have on its consolidated financial position or results of operations.

Note 2 Stock-Based Compensation

At September 30, 2006, Newpark had several stock-based employee compensation plans, as follows:

1995 Incentive Stock Option Plan

On November 2, 1995, the Board of Directors adopted, and on June 12, 1996, the stockholders approved, the 1995 Incentive Stock Option Plan (the 1995 Plan), pursuant to which the Compensation Committee of Newpark s Board of Directors may grant incentive stock options and non-statutory stock options to designated employees of Newpark. The terms of options granted under the 1995 Plan generally provide for equal vesting over a three-year period and a term of seven years. Initially, a maximum of 2,100,000 shares of Common Stock could be issued under the 1995 Plan. This maximum number was subject to increase on the last business day of each fiscal year by a number equal to 1.25% of the number of shares of Common Stock issued and outstanding on the close of business on that date, subject to a maximum limit of 8,000,000 shares. This reflects an increase in the limit that was approved by Newpark stockholders in June 2000. After November 1, 2005, no options were able to be granted under the 1995 Plan, but unexpired options granted before that date continue in effect in accordance with their terms until they are exercised or expire.

2004 Non-Employee Directors Stock Option Plan

On March 10, 2004, the Board of Directors adopted, and, on June 9, 2004, the stockholders approved the 2004 Non-Employee Directors Stock Option Plan (the 2004 Plan). Under the 2004 Plan, each non-employee director was granted a stock option to purchase 10,000 shares of common stock at an exercise price equal to the fair market value of the common stock on June 9, 2004. In

Table of Contents

addition, each new non-employee director, on the date of his or her election to the Board of Directors (whether elected by the stockholders or the Board of Directors), automatically is granted a stock option to purchase 10,000 shares of common stock at an exercise price equal to the fair market value of the common stock on the date of grant. Twenty percent of those option shares become exercisable on each of the first through the fifth anniversaries of the date of grant. The 2004 Plan also provides for the automatic additional grant to each non-employee director of stock options to purchase 10,000 shares of common stock each time the non-employee director is re-elected to the Board of Directors. One-third of those option shares become exercisable on each of the first through the third anniversaries of the date of grant. The term of options granted under the 2004 Plan is 10 years. Non-employee directors are not eligible to participate in any other stock option or similar plans currently maintained by Newpark. The purpose of the 2004 Plan is to promote an increased incentive and personal interest in the welfare of Newpark by those individuals who are primarily responsible for shaping the long-range plans of Newpark, to assist Newpark in attracting and retaining on the Board of Directors persons of exceptional competence and to provide additional incentives to serve as a director of Newpark. The 2004 Plan superseded the 1993 Non-Employee Directors Stock Option Plan.

On September 12, 2006, the Compensation Committee approved an amendment to the 2004 Plan. As amended, the 2004 Plan provides that the purchase price of shares of Common Stock subject to each stock option granted under the 2004 Plan will be equal to the fair market value of those shares on the date of grant, which will be equal to the closing price of the Common Stock for the day on which the option is granted (or the last trading day in the case of options granted on a non-trading day). On September 15, 2006, the Compensation Committee approved another amendment to the 2004 Plan to clarify the provision set forth in the last sentence of Section 4.2 of the 2004 Plan. As amended, this provision requires that, if no annual meeting of stockholders (or stockholder action in lieu of a meeting) occurs in any calendar year, and a non-employee director eligible to receive a stock option grant under the 2004 Plan remains a non-employee director as of the end of that calendar year, then that non-employee director will receive a stock option grant pursuant to Section 4.2 of the 2004 Plan on the last business day of the same calendar year, subject to the terms and conditions of the 2004 Plan.

2003 Long-Term Incentive Plan

On March 12, 2003, the Board of Directors adopted the 2003 Long Term Incentive Plan (the 2003 Plan), which was approved by the stockholders at the 2003 Annual Meeting. Under the 2003 Plan, awards of share equivalents are made at the beginning of overlapping three-year performance periods. These awards vest and become payable in Newpark common stock if certain performance criteria are met over the three-year performance period. During the nine months ended September 30, 2006, no awards of share equivalents were made under the 2003 Plan.

Subject to adjustment upon a stock split, stock dividend or other recapitalization event, the maximum number of shares of common stock that may be issued under the 2003 Plan is 1,000,000. The common stock issued under the 2003 Plan will be from authorized but unissued shares of Newpark s common stock, although shares issued under the 2003 Plan that are reacquired by Newpark due to a forfeiture or any other reason may again be issued under the 2003 Plan. The maximum number of shares of common stock that may be granted to any one eligible employee during any calendar year is 50,000.

The business criteria that the Compensation Committee may use to set the performance objectives for awards under the 2003 Plan include the following: total stockholder return, return on equity, growth in earnings per share, profits and/or return on capital within a particular business unit, regulatory compliance metrics, including worker safety measures, and other criteria that the Compensation Committee may from time to time determine. The performance criteria may be stated relative to other companies in the oil service sector industry group.

The Compensation Committee determined that the performance criteria are (i) Newpark s annualized total stockholder return compared to its peers in the PHLX Oil Service Sector^{sm} (OSX^{sm}) industry group index published by the Philadelphia Stock Exchange and (ii) Newpark s average return on equity over the three-year period. Partial vesting occurs when Newpark s performance achieves expected levels, and full vesting occurs if Newpark s performance is at the over-achievement level for both performance measures, in each case measured over the entire three-year performance period. No shares vest if Newpark s performance level is below the expected level, and straight-line interpolation will be used to determine vesting if performance is between expected and over-achievement levels. The following performance levels were adopted and apply to all awards granted under the 2003 Plan from inception through 2005:

	Annualized Total Stockholder Return (50%)	Average Return on Equity (50%)	Portion of Contingent Award Vested
Expected level	50th percentile of OSX^{sm} industry group	8%	20%
Over-achievement level	75th percentile of OSX^{sm} industry group	14%	100%

Pursuant to FAS 123(R), the awards subject to the annualized total stockholder return criterion contain a market condition and the awards subject to the average return on equity contain a performance condition. The fair value of the awards subject to a market condition was calculated using Monte Carlo simulation.

During the nine months ended September 30, 2006, Newpark awarded 375,000 stock options and 200,000 time-restricted shares to its new chief executive officer as an inducement to accept employment. The stock options vest ratably over three years and the time restricted shares vest ratably over five years. Also, during the nine months ended September 30, 2006, Newpark awarded 25,000 options to its new president of the mat and integrated services division as an inducement to accept employment. These stock options vest ratably over three years. In addition, during the three and nine months ended September 30, 2006, Newpark awarded 10,000 stock options to a new director under the 2004 Plan. The stock options were granted on the date of hire/appointment with an exercise price equal to the fair value of the underlying stock on the date of grant.

The fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Risk-free interest rate	4.73%	4.22%	4.69%	3.94%
Expected life of the option in years	4.85	4.00	4.85	4.00
Expected volatility	51.5%	70.8%	51.9%	72.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%

The risk-free interest rate is based on the implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the option. The expected life of the option is based on observed historical patterns. The expected volatility is based on historical volatility of the price of Newpark s common stock. The dividend yield is based on the projected annual dividend payment per share divided by the stock price at the date of grant, which is zero because Newpark has not paid dividends for several years and does not expect to pay dividends in the foreseeable future.

The following table summarizes activity for Newpark s outstanding stock options for the nine

Table of Contents

months ended September 30, 2006:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at beginning of period	4,474,031	$ 6.31		
Granted	410,000	7.87		
Exercised	(765,776)	5.50		
Expired or canceled	(584,563)	6.52		
Outstanding at end of period	3,533,692	6.64	3.62	$ 671,000
Options exercisable at end of period	2,842,578	6.51	2.94	$ 643,000

During the three- and nine-month periods ended September 30, 2006, the weighted-average grant date fair value of options granted was $2.52 and $3.90, respectively. During the three- and nine-month periods ended September 30, 2005, the weighted-average grant date fair value of options granted was $4.79 and $3.57, respectively. During the three- and nine-month periods ended September 30, 2006, the total intrinsic value of options exercised was $23,000 and $2,427,000, respectively. During the three- and nine-month periods ended September 30, 2005, the total intrinsic value of options exercised was $1,574,000 and $2,114,000, respectively.

The following table summarizes activity for Newpark s outstanding nonvested stock awards for the nine months ended September 30, 2006: