

NEWPARK RESOURCES INC
Form 10-Q
July 27, 2018

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

Form 10-Q

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

For the quarterly period ended June 30, 2018

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 Number: 001-02960

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, a 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

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As of July 25, 2018, a total of 90,557,449 shares of common stock, \$0.01 par value per share, were outstanding.

NEWPARK RESOURCES, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2018

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended. We also may provide oral or written forward-looking statements in other materials we release to the public. Words such as “will,” “may,” “could,” “would,” “should,” “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.

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, 2017.

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

Newpark Resources, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share data)	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$71,722	\$ 56,352
Receivables, net	252,154	265,866
Inventories	189,571	165,336
Prepaid expenses and other current assets	20,492	17,483
Total current assets	533,939	505,037
Property, plant and equipment, net	316,062	315,320
Goodwill	44,020	43,620
Other intangible assets, net	27,622	30,004
Deferred tax assets	4,484	4,753
Other assets	3,587	3,982
Total assets	\$929,714	\$ 902,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current debt	\$3,584	\$ 1,518
Accounts payable	93,254	88,648
Accrued liabilities	39,769	68,248
Total current liabilities	136,607	158,414
Long-term debt, less current portion	193,636	158,957
Deferred tax liabilities	36,158	31,580
Other noncurrent liabilities	8,590	6,285
Total liabilities	374,991	355,236
Commitments and contingencies (Note 9)		
Common stock, \$0.01 par value (200,000,000 shares authorized and 106,071,255 and 104,571,839 shares issued, respectively)	1,061	1,046
Paid-in capital	611,667	603,849
Accumulated other comprehensive loss	(63,097)	(53,219)
Retained earnings	134,589	123,375
Treasury stock, at cost (15,513,806 and 15,366,504 shares, respectively)	(129,497)	(127,571)
Total stockholders' equity	554,723	547,480
Total liabilities and stockholders' equity	\$929,714	\$ 902,716

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands, except per share data)	2018	2017	2018	2017
Revenues	\$236,262	\$183,020	\$463,555	\$341,711
Cost of revenues	188,480	148,431	374,935	278,021
Selling, general and administrative expenses	28,708	26,630	55,662	52,027
Other operating income, net	(69)	(9)	(23)	(51)
Operating income	19,143	7,968	32,981	11,714
Foreign currency exchange loss	458	534	683	926
Interest expense, net	3,691	3,441	6,991	6,659
Income from operations before income taxes	14,994	3,993	25,307	4,129
Provision for income taxes	4,148	2,361	7,239	3,480
Net income	\$10,846	\$1,632	\$18,068	\$649
Income per common share - basic:	\$0.12	\$0.02	\$0.20	\$0.01
Income per common share - diluted:	\$0.12	\$0.02	\$0.19	\$0.01

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

(In thousands)	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
Net income	\$10,846	\$1,632	\$18,068	\$649
Foreign currency translation adjustments (net of tax benefit of \$1,486, \$0, \$987, \$0)	(9,212)	5,269	(9,878)	7,824
Comprehensive income	\$1,634	\$6,901	\$8,190	\$8,473

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		Treasury Stock	Total
			Other Comprehensive Loss	Retained Earnings		
Balance at December 31, 2016	\$ 998	\$558,966	\$ (63,208	) \$129,873	\$(126,086)	\$500,543
Net income	—	—	—	649	—	649
Employee stock options, restricted stock and employee stock purchase plan	11	728	—	(237	) (1,088	) (586
Stock-based compensation expense	—	5,874	—	—	—	5,874
Foreign currency translation	—	—	7,824	—	—	7,824
Balance at June 30, 2017	\$ 1,009	\$565,568	\$ (55,384	) \$130,285	\$(127,174)	\$514,304
Balance at December 31, 2017	\$ 1,046	\$603,849	\$ (53,219	) \$123,375	\$(127,571)	\$547,480
Cumulative effect of accounting changes	—	—	—	(6,764	) —	(6,764
Net income	—	—	—	18,068	—	18,068
Employee stock options, restricted stock and employee stock purchase plan	15	2,970	—	(90	) (1,926	) 969
Stock-based compensation expense	—	4,848	—	—	—	4,848
Foreign currency translation, net of tax	—	—	(9,878	) —	—	(9,878
Balance at June 30, 2018	\$ 1,061	\$611,667	\$ (63,097	) \$134,589	\$(129,497)	\$554,723

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

(In thousands)	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 18,068	\$ 649
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	22,755	19,244
Stock-based compensation expense	4,848	5,874
Provision for deferred income taxes	243	(3,672)
Net provision for doubtful accounts	1,229	1,412
Gain on sale of assets	(371)	(1,266)
Amortization of original issue discount and debt issuance costs	2,643	2,679
Change in assets and liabilities:		
Increase in receivables	(1,185)	(48,612)
Increase in inventories	(21,459)	(10,500)
Increase in other assets	(3,417)	(2,773)
Increase in accounts payable	6,659	15,590
Increase (decrease) in accrued liabilities and other	(9,326)	43,685
Net cash provided by operating activities	20,687	22,310
Cash flows from investing activities:		
Capital expenditures	(24,458)	(16,644)
Refund of proceeds from sale of a business	(13,974)	—
Proceeds from sale of property, plant and equipment	920	1,222
Business acquisitions, net of cash acquired	(249)	—
Net cash used in investing activities	(37,761)	(15,422)
Cash flows from financing activities:		
Borrowings on lines of credit	203,716	—
Payments on lines of credit	(171,796)	—
Debt issuance costs	(11)	(335)
Proceeds from employee stock plans	3,700	1,517
Purchases of treasury stock	(3,074)	(2,382)
Other financing activities	2,515	2,333
Net cash provided by financing activities	35,050	1,133
Effect of exchange rate changes on cash	(2,926)	2,017
Net increase in cash, cash equivalents, and restricted cash	15,050	10,038
Cash, cash equivalents, and restricted cash at beginning of period	65,460	95,299
Cash, cash equivalents, and restricted cash at end of period	\$ 80,510	\$ 105,337

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, 2017. Our fiscal year end is December 31, our second quarter represents the three-month period ended June 30 and our first half represents the six-month period ended June 30. The results of operations for the second quarter and first half of 2018 are not necessarily indicative of the results to be expected for the entire year. Unless otherwise noted, 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 June 30, 2018, our results of operations for the second quarter and first half of 2018 and 2017, and our cash flows for the first half of 2018 and 2017. All adjustments are of a normal recurring nature. Our balance sheet at December 31, 2017 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, 2017.

New Accounting Pronouncements

Standards Adopted in 2018

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (“FASB”) amended the guidance for revenue from contracts with customers. 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. We adopted this new guidance as of January 1, 2018 using the modified retrospective transition method, and recorded a net reduction of \$2.3 million to opening retained earnings to reflect the cumulative effect of adoption for contracts not completed as of December 31, 2017. Results for reporting periods beginning after December 31, 2017 are presented under the new guidance, while prior period amounts were not adjusted and continue to be reported in accordance with previous guidance.

The adoption of this new guidance primarily affected the timing of revenue recognition for drilling fluid additive products provided to customers in the delivery of an integrated fluid system in our U.S. drilling fluids business. Under previous guidance, we recognized revenue for these products upon shipment of materials and passage of title, with a reserve for estimated product returns. Under the new guidance, we recognize revenue for these products when they are utilized, which generally occurs at the time of consumption by the customer. There was no material impact on reported revenues for the second quarter or first half of 2018 as a result of applying the new revenue recognition guidance.

The adoption of this guidance also requires additional disclosures for disaggregated revenues, which are included in Note 11. The following provides a summary of our significant accounting policies for revenue recognition under the new guidance for periods beginning after December 31, 2017.

Revenue Recognition - Fluids Systems. Revenues for drilling fluid additive products and engineering services, when provided to customers in the delivery of an integrated fluid system, are recognized as product revenues when utilized by the customer. Revenues for formulated liquid systems are recognized as product revenues when utilized or lost downhole while drilling. Revenues for equipment rentals and other services provided to customers that are ancillary to the fluid system product delivery are recognized in rental and services revenues when the services are performed. For

direct sales of drilling fluid products, revenues are recognized when control passes to the customer, which is generally upon shipment of materials.

Revenue Recognition - Mats and Integrated Services. Revenues for rentals and services are generated from both fixed-price and unit-priced contracts, which are generally short-term in duration. The activities under these contracts include the installation and rental of matting systems for a period of time and services such as site planning and preparation, pit design, access road construction, environmental protection, fluids and spill storage/containment, erosion control, site restoration services and construction and drilling waste management. Rental revenues are recognized over the rental term and services revenues are

recognized when the specified services are performed. Revenues from any subsequent extensions to the rental agreements are recognized over the extension period. Revenues from the sale of mats are recognized when control passes to the customer, which is upon shipment or delivery, depending on the terms of the underlying sales contract. For both segments, the amount of revenue we recognize for products sold and services performed reflects the consideration to which we expect to be entitled in exchange for such goods or services, which generally reflects the amount we have the right to invoice based on agreed upon unit rates. While billing requirements vary, many of our customer contracts require that billings occur periodically or at the completion of specified activities, even though our performance and right to consideration occurs throughout the contract. As such, we recognize revenue as performance is completed in the amount to which we have the right to invoice. We do not disclose the value of our unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue for the amount to which we have the right to invoice for products sold and services performed.

Shipping and handling costs are reflected in cost of revenues, and all reimbursements by customers of shipping and handling costs are included in revenues.

Accounting for Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. In October 2016, the FASB amended the guidance related to the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than the previous requirement to defer recognition of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold to an outside party. 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. We adopted this new guidance as of January 1, 2018 using the modified retrospective transition method, and recorded a net reduction of \$4.5 million to opening retained earnings to reflect the cumulative effect of adoption for the current and deferred income tax consequences of an intra-entity sale of mats from the U.S. to the U.K. completed prior to 2018.

The cumulative effect of the changes made to our consolidated balance sheet for the adoption of the new guidance for revenue from contracts with customers and the income tax consequences of intra-entity transfers of assets other than inventory were as follows:

(In thousands)	Balance at December 31, 2017	Impact of Adoption of New Revenue Recognition Guidance	Impact of Adoption of New Intra-Entity Transfers of Assets Guidance	Balance at January 1, 2018
Receivables, net	265,866	(8,441)	—	257,425
Inventories	165,336	5,483	—	170,819
Deferred tax liabilities	31,580	(679)	4,485	35,386
Retained earnings	123,375	(2,279)	(4,485)	116,611

Statement of Cash Flows. In August 2016, the FASB issued new 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. We adopted this new guidance as of January 1, 2018. The adoption of this new guidance had no impact on our historical financial statements or related disclosures.

Standards Not Yet Adopted

Leases. In February 2016, the FASB amended the guidance related to the accounting for leases. The new guidance 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. This guidance is effective for us in the first quarter of 2019, and will be applied retrospectively as of the date of adoption, although the FASB is currently

considering allowing the modified retrospective transition method. As part of our assessment work to date, we have formed an implementation work team, conducted a preliminary analysis of the new guidance and continue to review contracts in our lease portfolio. Based on our current lease portfolio, we anticipate the new guidance will require us to reflect additional assets and liabilities on 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 and related disclosures.

Credit Losses. In June 2016, the FASB issued new guidance which requires financial assets measured at amortized cost basis, including trade receivables, to be presented at the net amount expected to be collected. The new guidance 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. This guidance is effective for us in the first quarter of 2020 with early adoption permitted, and will be applied using a modified retrospective transition method through a cumulative-effect adjustment to retained earnings as of the date of adoption. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

Note 2 – Business Combinations

In November 2017, we acquired certain assets and assumed certain liabilities of Well Service Group, Inc. and Utility Access Solutions, Inc. (together, “WSG”). The purchase price for this acquisition was approximately \$77.4 million, net of cash acquired, which included \$45.0 million of cash consideration and the issuance of 3,361,367 shares of our common equity valued at \$32.4 million. The results of operations of WSG are reported within the Mats and Integrated Services segment for the periods subsequent to the date of the acquisition.

The WSG transaction has been recorded using the acquisition method of accounting and accordingly, assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The acquisition resulted in the preliminary recognition of \$27.0 million in other intangible assets consisting primarily of customer relationships, technology and tradename. All of the other intangibles are finite-lived intangible assets that are preliminarily expected to be amortized over periods of 10 to 15 years with a weighted average amortization period of approximately 13 years. The excess of the total consideration was recorded as goodwill, which is deductible for tax purposes, and includes the value of the assembled workforce. The fair values of the identifiable assets acquired and liabilities assumed were based on the company's estimates and assumptions using various market, income and cost valuation approaches, which are classified within level 3 of the fair value hierarchy. While the initial purchase price allocation has been completed, the allocation of the purchase price is subject to change for a period of one year following the closing date of the acquisition.

The following table summarizes the preliminary amounts recognized for the assets acquired and liabilities assumed as of the November 13, 2017 acquisition date, updated for changes to the purchase price allocation during the first half of 2018.

(In thousands)

Retainable	14,527
Intangible	26,970
Other	6,820
Current	7,133
assets	
Property,	
plant	
and	
equipment	
Intangible	
assets	
Total	66,820
acquired	
Current	
liabilities	
Total	74,133
liabilities	
assumed	

Net
~~53,687~~
purchased
~~23,760~~ will
Total
~~\$77,437~~
consideration

Cash
conveyed
at
\$ 44,750
closing
in
2017

Equity
issued
at
32,438
closing
in
2017

Cash
conveyed
at
working
249
capital
settlement
in
2018

Total
~~\$77,437~~
consideration

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.

Note 3 – Earnings Per Share

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

(In thousands, except per share data)	Second Quarter		First Half	
	2018	2017	2018	2017
Numerator				
Net income - basic and diluted	\$10,846	\$1,632	\$18,068	\$ 649
Denominator				
Weighted average common shares outstanding - basic	89,703	84,653	89,400	84,404
Dilutive effect of stock options and restricted stock awards	2,823	2,662	2,730	2,695
Dilutive effect of 2021 Convertible Notes	1,265	—	636	—
Weighted average common shares outstanding - diluted	93,791	87,315	92,766	87,099
Income per common share				
Basic	\$0.12	\$0.02	\$0.20	\$ 0.01
Diluted	\$0.12	\$0.02	\$0.19	\$ 0.01

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

(In thousands)	Second Quarter		First Half	
	2018	2017	2018	2017
Stock options and restricted stock awards	1,173	2,464	1,412	2,381
2017 Convertible Notes	—	7,569	—	7,569
2021 Convertible Notes	—	—	—	—

The unsecured convertible senior notes due 2017 (“2017 Convertible Notes”) were repaid upon maturity in October 2017. The 2021 Convertible Notes (as defined in Note 7) only impact the calculation of diluted net income per share in periods that 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. 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 7. 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 2018, the Compensation Committee of our Board of Directors (“Compensation Committee”) approved equity-based compensation to executive officers and other key employees, consisting of 917,901 shares of restricted stock units which will primarily vest in equal installments over a three-year period. At June 30, 2018, there remained 959,889 shares available for award under the 2015 Employee Equity Incentive Plan (“2015 Plan”). In addition, non-employee directors received a grant of 85,578 shares of restricted stock awards 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 grant-date fair value was \$10.58 per share for the restricted stock units and \$10.75 per share for the restricted stock awards.

Also during the second quarter of 2018, the Compensation Committee approved the issuance of cash-settled awards to certain executive officers, including \$1.3 million of time-based cash awards and a target amount of \$1.3 million of performance-based cash awards. The time-based cash awards vest in equal installments over a three-year period and the performance-based cash awards will be settled based on the relative ranking of our total shareholder return (“TSR”) as compared to the TSR of our designated peer group over a three-year period. The performance period began June 1, 2018 and ends May 31, 2021, with the ending TSR price being equal to the average closing price of our shares over the 30-calendar days ending May 31, 2021 and 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 statements of operations.

Note 5 – Receivables

Receivables consisted of the following:

(In thousands)	June 30, 2018	December 31, 2017
Trade receivables:		
Gross trade receivables	\$244,003	\$256,851
Allowance for doubtful accounts	(9,460)	(9,457)
Net trade receivables	234,543	247,394
Income tax receivables	7,261	6,905
Other receivables	10,350	11,567
Total receivables, net	\$252,154	\$265,866

Other receivables included \$9.3 million and \$10.8 million for value added, goods and service taxes related to foreign jurisdictions as of June 30, 2018 and December 31, 2017, respectively. As described in Note 1, the adoption of the new revenue recognition guidance resulted in an \$8.4 million reduction in gross trade receivables as of January 1, 2018.

Note 6 – Inventories

Inventories consisted of the following:

(In thousands)	June 30, 2018	December 31, 2017
Raw materials:		
Drilling fluids	\$144,674	\$123,022
Mats	1,780	1,419
Total raw materials	146,454	124,441
Blended drilling fluids components	36,280	30,495
Finished goods - mats	6,837	10,400
Total inventory	\$189,571	\$165,336

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 drilling fluid systems require raw materials to be added, as needed to meet specified customer requirements. As described in Note 1, the

adoption of the new revenue recognition guidance resulted in a \$5.5 million increase in inventories as of January 1, 2018.

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Note 7 – Financing Arrangements and Fair Value of Financial Instruments

Financing arrangements consisted of the following:

(In thousands)	June 30, 2018			December 31, 2017		
	Principal Amount	Unamortized Discount and Debt Issuance Costs	Total Debt	Principal Amount	Unamortized Discount and Debt Issuance Costs	Total Debt
2021 Convertible Notes	\$ 100,000	\$ (20,264)	\$ 79,736	\$ 100,000	\$ (22,643)	\$ 77,357
ABL Facility	113,900	—	113,900	81,600	—	81,600
Other debt	3,584	—	3,584	1,518	—	1,518
Total debt	217,484	(20,264)	197,220	183,118	(22,643)	160,475
Less: current portion	(3,584)	—	(3,584)	(1,518)	—	(1,518)
Long-term debt	\$ 213,900	\$ (20,264)	\$ 193,636	\$ 181,600	\$ (22,643)	\$ 158,957

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 commencing after the calendar quarter ending on March 31, 2017 (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 July 26, 2018, 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. As of June 30, 2018, the carrying amount of the debt component was \$79.7 million, which is net of the unamortized debt discount and issuance costs of \$18.2 million and \$2.0 million, respectively. Including the impact of the debt discount and related deferred debt issuance costs, the effective interest rate on the notes is approximately 11.3%.

Asset-Based Loan Facility. In May 2016, we entered into an asset-based revolving credit agreement which replaced our previous credit agreement. In October 2017, we entered into an Amended and Restated Credit Agreement (as amended, the “ABL Facility”) which amended and restated the prior asset-based revolving credit agreement. The ABL Facility provides financing of up to \$150.0 million available for borrowings (inclusive of letters of credit) and can be

increased up to a maximum capacity of \$225.0 million, subject to certain conditions. As of June 30, 2018, our total borrowing base availability under the ABL Facility was \$150.0 million, of which \$113.9 million was drawn, resulting in remaining availability of \$36.1 million.

The ABL Facility terminates on October 17, 2022; however, the ABL Facility has a springing maturity date that will accelerate the maturity of the ABL Facility to September 1, 2021 if, prior to such date, the 2021 Convertible Notes have not either been repurchased, redeemed, converted or we have not provided sufficient funds to repay the 2021 Convertible Notes in full on their maturity date. For this purpose, funds may be provided in cash to an escrow agent or a combination of cash to an escrow

agent and the assignment of a portion of availability under the ABL Facility. The ABL Facility requires compliance with a minimum fixed charge coverage ratio and minimum unused availability of \$25.0 million to utilize borrowings or assignment of availability under the ABL Facility towards funding the repayment of the 2021 Convertible Notes. 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 such 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.

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 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 as defined in the ABL Facility. As of June 30, 2018, the applicable margin for borrowings under our ABL Facility was 200 basis points with respect to LIBOR borrowings and 100 basis points with respect to base rate borrowings. The weighted average interest rate for the ABL Facility was 4.1% at June 30, 2018. In addition, we are required to pay a commitment fee on the unused portion of the ABL Facility ranging from 25 to 37.5 basis points, based on the ratio of debt to consolidated EBITDA, as defined in the ABL Facility. The applicable commitment fee as of June 30, 2018 was 37.5 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 \$22.5 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.

Other Debt. Our foreign subsidiaries in India and Canada maintain local credit arrangements consisting primarily of lines of credit which are renewed on an annual basis. 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 \$0.5 million and \$1.0 million, respectively, outstanding under these arrangements at June 30, 2018 and December 31, 2017.

At June 30, 2018, we had letters of credit issued and outstanding of \$5.8 million that are collateralized by \$6.6 million in restricted cash. Additionally, our foreign operations had \$26.1 million outstanding in letters of credit and other guarantees, primarily issued under a credit arrangement in Italy as well as certain letters of credit that are collateralized by \$2.2 million in restricted cash.

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 2021 Convertible Notes, approximated their fair values at June 30, 2018 and December 31, 2017. The estimated fair value of our 2021 Convertible Notes was \$137.3 million at June 30, 2018 and \$127.3 million at December 31, 2017, based on quoted market prices at these respective dates.

Note 8 – Income Taxes

The U.S. Tax Cuts and Jobs Act (“Tax Act”) was enacted on December 22, 2017 resulting in broad and complex changes to U.S. income tax law. The Tax Act includes a one-time transition tax in 2017 on accumulated foreign subsidiary earnings not previously subject to U.S. income tax, reduces the U.S. corporate statutory tax rate from 35% to 21% effective January 1, 2018, generally eliminates U.S. federal income tax on dividends from foreign subsidiaries, creates new tax on certain foreign-sourced earnings, makes other changes to limit certain deductions and changes rules on how certain tax credits and net operating loss carryforwards can be utilized. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements for the year ended December 31, 2017. As we finalize the necessary data, and interpret the Tax Act and any additional guidance issued by the U.S. Treasury Department, the U.S. Internal Revenue Service (“IRS”), or other standard-setting bodies, we may make adjustments to these provisional amounts during 2018.

Provisional amounts for the following income tax effects of the Tax Act were recorded as of December 31, 2017 and are subject to change during 2018. We have not made any significant measurement-period adjustments related to these items during the first half of 2018. However, we are continuing to gather additional information to complete our accounting for these items and may make adjustments to the provisional amounts during 2018.

One-Time Transition Tax

The Tax Act requires us to pay U.S. income taxes on accumulated foreign subsidiary earnings not previously subject to U.S. income tax at a rate of 15.5% to the extent of foreign cash and certain other net current assets and 8% on the remaining earnings. We recorded a provisional amount of \$6.9 million in 2017 for our one-time transitional tax liability and income tax expense based on estimates of the effects of the Tax Act. We continue to analyze the significant data from our foreign subsidiaries in connection with the completion of our 2017 income tax returns.

Taxes on Repatriation of Foreign Earnings

Prior to the Tax Act, we considered the unremitted earnings in our non-U.S. subsidiaries held directly by a U.S. parent to be indefinitely reinvested and, accordingly, had not provided any deferred income taxes. As a result of the Tax Act, we now intend to pursue repatriation of unremitted earnings in our non-U.S. subsidiaries held directly by a U.S. parent to the extent that such earnings have been included in the one-time transition tax discussed above, and subject to cash requirements to support the strategic objectives of the non-U.S. subsidiary. As such, we recorded a provisional amount of \$7.0 million in 2017 for the estimated liability and income tax expense for any U.S. federal or state income taxes or additional foreign withholding taxes related to repatriation of such earnings. In addition, in 2017 we recognized certain foreign tax credits of \$5.5 million in the U.S. related to the provisional accounting for taxes on repatriation of foreign earnings, however, we also recognized a full valuation allowance related to such tax assets as it is more likely than not that these assets will not be realized. The provisional amounts recorded in 2017 may change as we finalize the analysis of these items during 2018.

In 2018, our income tax provision includes the estimated expense for any U.S. federal and state income taxes from the new tax on certain foreign-sourced earnings as well as any additional foreign withholding taxes related to future repatriation of current year earnings in our non-U.S. subsidiaries held directly by a U.S. parent.

Deferred Tax Effects

The Tax Act reduced the U.S. corporate statutory tax rate from 35% to 21% for years after 2017. Accordingly, we remeasured our U.S. net deferred tax liabilities as of December 31, 2017 to reflect the reduced rate that will apply in future periods when those deferred taxes are settled or realized. We recognized a provisional deferred tax benefit of \$17.4 million in 2017 to reflect the reduced U.S. tax rate on our estimated U.S. net deferred tax liabilities. Although the tax rate reduction is known, we have not completed our analysis of the effect of the Tax Act on the underlying deferred taxes for the items discussed above, and as such, the amounts recorded as of December 31, 2017 are provisional.

The net tax benefit recognized in 2017 related to the Tax Act was \$3.4 million. As we complete our analysis of the Tax Act and incorporate additional guidance that may be issued by the U.S. Treasury Department, the IRS or other standard-setting bodies, we may identify additional effects not reflected as of December 31, 2017. Those adjustments

may materially impact our provision for income taxes and effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the Tax Act will be completed in 2018.

The provision for income taxes was \$7.2 million for the first half of 2018, reflecting an effective tax rate of 29%, compared to \$3.5 million for the first half of 2017, reflecting an effective tax rate of 84%. The provision for income taxes for the first half of 2018 includes a \$0.8 million net excess tax benefit primarily related to the vesting of certain stock-based compensation awards in the second quarter. Although the Tax Act reduced the U.S. corporate statutory tax rate effective January 1, 2018, our provision

for income taxes in 2018 also includes the estimated expense for any U.S. federal and state income taxes from the new tax on certain foreign-sourced earnings as well as any additional foreign withholding taxes related to future repatriation of current year earnings from our non-U.S. subsidiaries. Due to the relative contribution of our domestic and foreign earnings, these taxes on certain foreign-sourced earnings and the impact of changes to deduction limitations from the Tax Act effectively offset the benefit of the lower U.S. corporate statutory tax rate in our 2018 provision for income taxes. The impact of the Tax Act on our effective tax rate in future periods will depend in large part on the relative contribution of our domestic and foreign earnings, as well as finalization of the provisional accounting for the Tax Act in 2018. The 2017 effective tax rate was negatively impacted by pre-tax losses in certain international jurisdictions, most notably Australia, and non-deductible expenses relative to the amount of pre-tax income.

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 – 2016. During the second quarter of 2017, we received a Revenue Agent Report from the 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 had an initial tax appeals hearing in June 2018. Although the tax appeals process has not concluded, we believe our tax position is properly reported in accordance with applicable U.S. tax laws and regulations and will continue to vigorously defend our position through the tax appeals process.

Following an audit in 2015, the treasury authority in Mexico issued a tax assessment (inclusive of interest and penalties) in the amount of 60 million pesos (approximately \$3.3 million) to our Mexico subsidiary primarily in connection with the export of mats from Mexico which took place in 2010. The mats that are the subject of this assessment were owned by a U.S. subsidiary and leased to our Mexico subsidiary for matting projects in the Mexican market. In 2010, we made the decision to move these mats out of Mexico to markets with higher demand. The Mexican treasury authority determined the export of the mats was the equivalent of a sale, and assessed taxes on the gross declared value of the exported mats to our Mexico subsidiary. We retained outside legal counsel and filed administrative appeals with the treasury authority, but we were notified on April 13, 2018, that the last administrative appeal had been rejected. In the second quarter of 2018, we filed an appeal in the Mexican Federal Tax Court, which required that we post a bond in the amount of the assessed taxes (plus additional interest). Although the tax appeals process has not concluded, we believe our tax position is properly reported in accordance with applicable tax laws and regulations in Mexico 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 amounts 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 uncertain tax positions 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 accruals.

Note 9 – 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, 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 purchase/sale agreement. In December 2014, we received a letter from Ecoserv asserting that we had breached certain representations and warranties contained in the purchase/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. In July 2015 we filed an action against Ecoserv in state district 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 purchase/sale agreement. Ecoserv also alleged that we committed fraud in connection with the March 2014 transaction. Following commencement of the trial in December 2017, we reached a settlement agreement with Ecoserv in the first quarter of 2018, under which Ecoserv received \$22.0 million in cash, effectively reducing the net sales price of the Environmental Services business by such amount in exchange for dismissal of the pending claims in the lawsuit, and release of any future claims related to the March

2014 transaction. As a result of the settlement, we recognized a charge to discontinued operations in the fourth quarter of 2017 for \$22.0 million (\$17.4 million net of tax) to reduce the previously recognized gain from the sale of the Environmental Services business. The reduction in sales price was funded in the first quarter of 2018 with a cash payment of \$14.0 million and release of the \$8.0 million that had been held in escrow since the March 2014 transaction. In March 2018, the lawsuit was dismissed with prejudice. Litigation expenses related to this matter are included in corporate office expenses in operating income.

Kenedy, Texas Drilling Fluids Facility Fire – Subsequent Event

In July 2018, a fire occurred at our Kenedy, Texas drilling fluids facility, destroying the distribution warehouse, including inventory and surrounding equipment. In addition, nearby residences and businesses were evacuated as part of the response to the fire. In order to avoid any customer service disruptions, we implemented contingency plans to supply products from alternate facilities in the area and region. While this event is covered by our property, business interruption, and general liability insurance programs, these programs contain self-insured retentions, which remain our financial obligations. Although the total costs associated with the event are not currently estimable, we expect to record approximately \$1 million to \$2 million of charges in the third quarter of 2018 related to this incident, primarily reflecting our self-insured retention obligations under the insurance programs.

Note 10 – Supplemental Disclosures to the Statements of Cash Flows

Supplemental disclosures to the statements of cash flows are presented below:

	First Half	
(In thousands)	2018	2017
Cash paid (received) for:		
Income taxes (net of refunds)	\$7,175	\$(31,637)
Interest	\$4,245	\$4,043

Cash, cash equivalents, and restricted cash in the consolidated statements of cash flows consisted of the following:

	June 30, December	
(In thousands)	2018	31, 2017
Cash and cash equivalents	\$71,722	\$56,352
Restricted cash (included in other current assets)	8,788	9,108
Cash, cash equivalents, and restricted cash	\$80,510	\$65,460

Note 11 – Segment Data

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

	Second Quarter		First Half	
(In thousands)	2018	2017	2018	2017
Revenues				
Fluids systems	\$179,738	\$150,623	\$357,117	\$286,673
Mats and integrated services	56,524	32,397	106,438	55,038
Total revenues	\$236,262	\$183,020	\$463,555	\$341,711
Operating income (loss)				
Fluids systems	\$13,327	\$5,863	\$23,804	\$12,215
Mats and integrated services	14,853	11,419	26,939	17,821
Corporate office	(9,037)	(9,314)	(17,762)	(18,322)
Operating income	\$19,143	\$7,968	\$32,981	\$11,714

The following table presents further disaggregated revenues for the Fluids Systems segment:

(In thousands)	Second Quarter		First Half	
	2018	2017	2018	2017
United States	\$104,333	\$88,206	\$196,802	\$153,826
Canada	11,285	7,434	34,357	27,089
Total North America	115,618	95,640	231,159	180,915
Latin America	8,903	8,598	16,817	17,658
Total Western Hemisphere	124,521	104,238	247,976	198,573
EMEA	49,546	44,788	100,981	85,296
Asia Pacific	5,671	1,597	8,160	2,804
Total Eastern Hemisphere	55,217	46,385	109,141	88,100

Total Fluids Systems revenues \$179,738 \$150,623 \$357,117 \$286,673

The following table presents further disaggregated revenues for the Mats and Integrated Services segment:

(In thousands)	Second Quarter		First Half	
	2018	2017	2018	2017
Service revenues	\$24,447	\$7,625	\$45,751	\$14,346
Rental revenues	20,938	17,722	39,750	30,362
Product sales revenues	11,139	7,050	20,937	10,330
Total Mats and Integrated Services revenues	\$56,524	\$32,397	\$106,438	\$55,038

The Mats and Integrated Services segment includes the impact of the WSG acquisition completed in November 2017.

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

The following discussion of our financial condition, results of operations, liquidity and capital resources should be read together with our unaudited condensed consolidated financial statements and notes to unaudited condensed consolidated financial statements contained in this Quarterly Report as well as our Annual Report on Form 10-K for the year ended December 31, 2017. Our second quarter represents the three-month period ended June 30 and the first half represents the six-month period ended June 30. Unless otherwise noted, all currency amounts are stated in U.S. dollars.

Overview

We are a geographically diversified supplier providing products, rentals and services primarily to the oil and gas exploration and production ("E&P") industry. We operate our business through two reportable segments: Fluids Systems and Mats and Integrated Services. In recent years, our Mats and Integrated Services segment has expanded beyond the E&P industry, and now serves a variety of industries, including the electrical transmission & distribution, pipeline, solar, petrochemical and construction industries.

Our operating results depend, to a large extent, on oil and gas drilling activity levels in the markets we serve, and particularly for the Fluids Systems segment, the nature of the drilling operations (including the depth and whether the wells are drilled vertically or horizontally), which governs the revenue potential of each well. Drilling activity levels, in turn, depend on a variety of factors, including oil and gas commodity pricing, inventory levels, product demand and regulatory restrictions. Oil and gas prices and activity are cyclical and volatile. This market volatility has a significant impact on our operating results.

While our revenue potential is driven by a number of factors including those described above, rig count data remains the most widely accepted indicator of drilling activity. Average North American rig count data for the second quarter and first half of 2018 as compared to the same periods of 2017 is as follows:

	Second Quarter		2018 vs 2017	
	2018	2017	Count	%
U.S. Rig Count	1,039	895	144	16 %
Canada Rig Count	108	117	(9)	(8) %
North America Rig Count	1,147	1,012	135	13 %
	First Half		2018 vs 2017	
	2018	2017	Count	%
U.S. Rig Count	1,003	819	184	22 %
Canada Rig Count	188	206	(18)	(9) %
North America Rig Count	1,191	1,025	166	16 %

Source: Baker Hughes, a GE Company

The Canadian rig count reflects the normal seasonality for this market, with the highest rig count levels generally observed in the first quarter of each year, prior to Spring break-up. Outside of North America, drilling activity is generally more stable as drilling activity in many countries is based on longer-term economic projections and multi-year drilling programs, which tends to reduce the impact of short-term changes in commodity prices on overall drilling activity. Although drilling activity in certain of our international markets (including Brazil and Australia) has declined in recent years, as a whole, our international activities have remained relatively stable, primarily driven by key contracts with national oil companies. While our international contracts vary in revenue potential and duration, certain international contracts are scheduled to conclude in 2018, including those with Sonatrach, Petrobras, and Kuwait Oil Company, as described below. Our future revenue levels in international markets are largely dependent on our ability to maintain existing market share upon contract renewals which may be subject to a competitive bid process and can be impacted by our customers' procurement strategies and allocation of contract awards.

Segment Overview

Our Fluids Systems segment, which generated 77% of consolidated revenues for the first half of 2018, provides customized fluids solutions to E&P customers globally, operating through four geographic regions: North America, Europe, the Middle East and Africa (“EMEA”), Latin America, and Asia Pacific. International expansion, including the penetration of international and national oil companies, is a key element of our Fluids Systems strategy, which in recent years has helped to stabilize revenues as North American oil and gas exploration activities have fluctuated significantly. Our significant international contracts with recent developments include:

In Kuwait, we provide drilling fluids and related services for land operations under a multi-year contract with Kuwait Oil Company (“KOC”). Work under this contract began in the second half of 2014 and is expected to be completed by the end of 2018. KOC has recently initiated a new tender process for a multi-year period to provide drilling fluids and related services for land operations. Tender proposals are expected to be submitted in the third quarter and awards are anticipated to be finalized by the end of 2018, although there are no assurances that we will receive a new contract.

In Algeria, we provide drilling fluids and related services to Sonatrach under Lot 1 and Lot 3 of a three-year contract awarded in 2015 (“2015 Contract”). Work under this contract began in the second quarter of 2015 and is expected to be completed by the fourth quarter of 2018. During the first quarter of 2018, Sonatrach initiated a new tender (“2018 Tender”), for a three-year term succeeding the 2015 Contract. For the 2018 Tender, Sonatrach adopted a change in its procurement process, limiting the number of Lots that could be awarded to major service providers. As a consequence, we expect any new award under the 2018 Tender will result in lower revenues from Sonatrach. Based upon provisional contract award notification, we currently expect that revenue from Sonatrach under the 2018 Tender will be approximately \$125 million over the three-year term, which would result in a reduction of approximately \$25 million per year as compared to the recent activity levels. The award remains subject to final approval by Sonatrach and the execution of contract documents. The impact of the new award could begin as early as the fourth quarter of 2018, as work transitions from the 2015 Contract to the final contract awarded under the 2018 Tender.

In Australia, we provide drilling fluids and related services under a contract with Baker Hughes, a GE Company (“Baker Hughes”) as part of its integrated service offering in support of the Greater Enfield project in offshore Western Australia. Work under this contract began in the first quarter of 2018.

In Brazil, we provide drilling fluids and related services under a multi-year contract with Petrobras for both onshore and offshore locations. Work under this contract began in the first half of 2009 and is scheduled to conclude by the end of 2018. In the second quarter of 2018, we submitted our proposal for Petrobras’ recent tender process, which will cover fluids products and services for a three-year term beginning in 2019. Awards are anticipated to be finalized in the second half of 2018, although there are no assurances that we will receive a new contract.

Our Mats and Integrated Services segment, which generated 23% of consolidated revenues for the first half of 2018, provides composite mat rentals utilized for temporary worksite access, along with site construction and related site services to customers in various markets including oil and gas exploration and production, electrical transmission & distribution, pipeline, solar, petrochemical and construction across North America and Europe. We also sell composite mats to customers outside of the U.S. and to domestic customers outside of the E&P market. Following our efforts in recent years to diversify our customer base, Mats and Integrated Services segment revenues from non-E&P markets represented approximately half of our segment revenues for the first half of 2018.

In November 2017, we acquired certain assets and assumed certain liabilities of Well Service Group, Inc. and Utility Access Solutions, Inc. (together, “WSG”) for approximately \$77 million. Since 2012, WSG has been a strategic logistics and installation service provider for our Mats and Integrated Services segment, offering a variety of complementary services to our composite matting systems, including access road construction, site planning and preparation, environmental protection, fluids and spill storage/containment, erosion control, and site restoration services. The completion of the WSG acquisition expanded our service offering as well as our geographic footprint across the Northeast, Midwest, Rockies, and West Texas regions of the U.S. WSG contributed approximately \$35 million of revenues to the Mats and Integrated Services segment for the first half of 2018.

Second Quarter of 2018 Compared to Second Quarter of 2017

Consolidated Results of Operations

Summarized results of operations for the second quarter of 2018 compared to the second quarter of 2017 are as follows:

(In thousands)	Second Quarter		2018 vs 2017	
	2018	2017	\$	%
Revenues	\$236,262	\$183,020	\$53,242	29 %
Cost of revenues	188,480	148,431	40,049	27 %
Selling, general and administrative expenses	28,708	26,630	2,078	8 %
Other operating income, net	(69)	(9)	(60)	NM
Operating income	19,143	7,968	11,175	NM
Foreign currency exchange loss	458	534	(76)	(14) %
Interest expense, net	3,691	3,441	250	7 %
Income from operations before income taxes	14,994	3,993	11,001	NM
Provision for income taxes	4,148	2,361	1,787	76 %
Net income	\$10,846	\$1,632	\$9,214	NM

Revenues

Revenues increased 29% to \$236.3 million for the second quarter of 2018, compared to \$183.0 million for the second quarter of 2017. This \$53.2 million increase includes a \$43.2 million (34%) increase in revenues in North America, comprised of a \$20.0 million increase in our Fluids Systems segment and a \$23.2 million increase in the Mats and Integrated Services segment, which includes approximately \$18 million contributed from the WSG acquisition. Revenues from our international operations increased by \$10.1 million (17%), primarily driven by increased activity in our EMEA and Asia Pacific regions in the Fluids Systems segment. Additional information regarding the change in revenues is provided within the operating segment results below.

Cost of revenues

Cost of revenues increased 27% to \$188.5 million for the second quarter of 2018, compared to \$148.4 million for the second quarter of 2017. The 27% increase in cost of revenues was primarily driven by the 29% increase in revenues described above. Additional information regarding the change in cost of revenues is provided within the operating segment results below.

Selling, general and administrative expenses

Selling, general and administrative expenses increased \$2.1 million (8%) to \$28.7 million for the second quarter of 2018, compared to \$26.6 million for the second quarter of 2017. The increase in expense was primarily driven by an increase in the Mats and Integrated Services segment, including costs attributable to the WSG acquisition, partially offset by recoveries associated with favorable resolutions of patent enforcement actions. Selling, general and administrative expenses as a percentage of revenues decreased to 12% for the second quarter of 2018 from 15% for the second quarter of 2017.

Foreign currency exchange

Foreign currency exchange was a \$0.5 million loss for each of the second quarter of 2018 and 2017, and reflects the impact of currency translation on assets and liabilities (including intercompany balances) that are denominated in currencies other than functional currencies.

Interest expense, net

Interest expense was \$3.7 million for the second quarter of 2018 compared to \$3.4 million for the second quarter of 2017. Interest expense in each of the second quarter of 2018 and 2017 includes \$1.3 million in noncash amortization of original issue discount and debt issuance costs.

Provision for income taxes

The provision for income taxes was \$4.1 million for the second quarter of 2018, reflecting an effective tax rate of 28%, compared to \$2.4 million for the second quarter of 2017, reflecting an effective tax rate of 59%. The provision

for income taxes for the second quarter of 2018 includes a \$0.8 million net excess tax benefit primarily related to the vesting of certain stock-based compensation awards during the period. Although the Tax Act reduced the U.S. corporate statutory tax rate effective January 1,

2018, our provision for income taxes in 2018 also includes the estimated expense for any U.S. federal and state income taxes from the new tax on certain foreign-sourced earnings as well as any additional foreign withholding taxes related to future repatriation of current year earnings from our non-U.S. subsidiaries. Due to the relative contribution of our domestic and foreign earnings, these taxes on certain foreign-sourced earnings and the impact of changes to deduction limitations from the Tax Act effectively offset the benefit of the lower U.S. corporate statutory tax rate in our 2018 provision for income taxes. The impact of the Tax Act on our effective tax rate in future periods will depend in large part on the relative contribution of our domestic and foreign earnings, as well as finalization of the provisional accounting for the Tax Act in 2018. The 2017 effective tax rate was negatively impacted by pre-tax losses in certain international jurisdictions, most notably Australia, and non-deductible expenses relative to the amount of pre-tax income.

The Tax Act enacted in December 2017 resulted in broad and complex changes to U.S. income tax law. The Tax Act includes a one-time transition tax in 2017 on accumulated foreign subsidiary earnings not previously subject to U.S. income tax, reduces the U.S. corporate statutory tax rate from 35% to 21% effective January 1, 2018, generally eliminates U.S. federal income tax on dividends from foreign subsidiaries, creates new tax on certain foreign-sourced earnings, makes other changes to limit certain deductions and changes rules on how certain tax credits and net operating loss carryforwards can be utilized.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we made reasonable estimates of the effects and recorded provisional amounts in our 2017 financial statements. As we finalize the necessary data, and interpret the Tax Act and any additional guidance issued by the U.S. Treasury Department, the U.S. Internal Revenue Service ("IRS"), or other standard-setting bodies, we may make adjustments to the provisional amounts during 2018. We have not made any significant measurement-period adjustments related to these items during the first half of 2018. However, we are continuing to gather additional information to complete our accounting for these items and may make adjustments to these provisional amounts during 2018.

Operating Segment Results

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

(In thousands)	Second Quarter		2018 vs 2017	
	2018	2017	\$	%
Revenues				
Fluids systems	\$179,738	\$150,623	\$29,115	19%
Mats and integrated services	56,524	32,397	24,127	74%
Total revenues	\$236,262	\$183,020	\$53,242	29%
Operating income (loss)				
Fluids systems	\$13,327	\$5,863	\$7,464	
Mats and integrated services	14,853	11,419	3,434	
Corporate office	(9,037)	(9,314)	277	
Operating income	\$19,143	\$7,968	\$11,175	
Segment operating margin				
Fluids systems	7.4	% 3.9	%	
Mats and integrated services	26.3	% 35.2	%	

Fluids Systems

Revenues

Total revenues for this segment consisted of the following:

(In thousands)	Second Quarter		2018 vs 2017	
	2018	2017	\$	%
United States	\$104,333	\$88,206	\$16,127	18 %
Canada	11,285	7,434	3,851	52 %
Total North America	115,618	95,640	19,978	21 %
Latin America	8,903	8,598	305	4 %
Total Western Hemisphere	124,521	104,238	20,283	19 %
EMEA	49,546	44,788	4,758	11 %
Asia Pacific	5,671	1,597	4,074	255 %
Total Eastern Hemisphere	55,217	46,385	8,832	19 %

Total Fluids Systems revenues \$179,738 \$150,623 \$29,115 19 %

North American revenues increased 21% to \$115.6 million for the second quarter of 2018 compared to \$95.6 million for the second quarter of 2017. This increase is primarily attributable to the 13% increase in North American average rig count along with market share gains in both the North American land markets and the offshore Gulf of Mexico market, as compared to the prior year.

Internationally, revenues increased 17% to \$64.1 million for the second quarter of 2018 compared to \$55.0 million for the second quarter of 2017. This increase is primarily attributable to a \$6.5 million improvement in Romania, as higher oil prices are resulting in an increase in drilling activity, along with a \$4.1 million increase in Australia related to the Baker Hughes Greater Enfield project described above, partially offset by lower activity in Algeria.

Operating Income

The Fluids Systems segment generated operating income of \$13.3 million for the second quarter of 2018 compared to \$5.9 million for the second quarter of 2017. The improvement in operating results includes a \$4.2 million improvement from North American operations, largely attributable to the \$20.0 million increase in revenues described above. Operating income from international operations increased by \$3.3 million, primarily related to the increase in revenues in Romania and Australia, as described above.

In July 2018, a fire occurred at our Kenedy, Texas drilling fluids facility, destroying the distribution warehouse, including inventory and surrounding equipment. In addition, nearby residences and businesses were evacuated as part of the response to the fire. In order to avoid any customer service disruptions, we implemented contingency plans to supply products from alternate facilities in the area and region. While this event is covered by our property, business interruption, and general liability insurance programs, these programs contain self-insured retentions, which remain our financial obligations. Although the total costs associated with the event are not currently estimable, we expect to record approximately \$1 million to \$2 million of charges in the third quarter of 2018 related to this incident, primarily reflecting our self-insured retention obligations under the insurance programs.

As discussed above, our contract with Petrobras in Brazil is scheduled to conclude by the end of 2018. Awards under the new tender are anticipated to be finalized in the second half of 2018, although there are no assurances that we will receive a new contract. The profitability of our business in Brazil remains highly dependent on increasing levels of drilling activity by Petrobras or other E&P customers. In the absence of a new contract award from Petrobras or an increase in longer-term drilling activity with other E&P customers, we may incur charges related to cost reduction efforts, or potential asset impairments, which may negatively impact our future operating results.

Mats and Integrated Services

Revenues

Total revenues for this segment consisted of the following:

(In thousands)	Second Quarter		2018 vs 2017	
	2018	2017	\$	%
Service revenues	\$24,447	\$7,625	\$16,822	221%
Rental revenues	20,938	17,722	3,216	18%
Product sales revenues	11,139	7,050	4,089	58%
Total Mats and Integrated Services revenues	\$56,524	\$32,397	\$24,127	74%

Service revenues for the second quarter of 2018 increased \$16.8 million compared to the second quarter of 2017. Substantially all of this increase is attributable to the WSG acquisition completed in November 2017. Rental revenues for the second quarter of 2018 increased \$3.2 million compared to the second quarter of 2017. This increase is primarily attributable to the impact of our continuing efforts to expand into non-E&P rental markets, partially offset by the impact of strong weather-related demand in the second quarter of 2017.

Product sales revenues were \$11.1 million for the second quarter of 2018 compared to \$7.1 million for the second quarter of 2017. Revenues from product sales have typically fluctuated based on the timing of mat orders from customers, however, the improvement in 2018 is primarily attributable to our continued efforts to expand our sales into non-E&P markets.

Operating Income

Segment operating income increased by \$3.4 million to \$14.9 million for the second quarter of 2018 compared to \$11.4 million for the second quarter of 2017, attributable to increases in revenues as described above.

Operating results for the second quarter of 2018 include approximately \$18 million of revenues associated with the WSG acquisition completed in November 2017. The acquired business is predominately focused on site services, as opposed to product sales and rentals, which has shifted the sales mix toward service revenues in 2018, as compared to 2017. While we expect the incremental service revenues to provide a positive impact to segment operating income, this mix shift, along with depreciation and amortization expense related to the purchase accounting allocation, is expected to reduce the overall segment operating margin in 2018 as compared to 2017. See Note 2 for further discussion of the WSG acquisition.

Corporate Office

Corporate office expenses decreased \$0.3 million to \$9.0 million for the second quarter of 2018 compared to \$9.3 million for the second quarter of 2017. This decrease reflects lower spending related to legal matters and strategic planning efforts partially offset by an increase in personnel costs.

First Half of 2018 Compared to First Half of 2017

Consolidated Results of Operations

Summarized results of operations for the first half of 2018 compared to the first half of 2017 are as follows:

(In thousands)	First Half		2018 vs 2017	
	2018	2017	\$	%
Revenues	\$463,555	\$341,711	\$121,844	36 %
Cost of revenues	374,935	278,021	96,914	35 %
Selling, general and administrative expenses	55,662	52,027	3,635	7 %
Other operating income, net	(23)	(51)	28	(55)%
Operating income	32,981	11,714	21,267	NM
Foreign currency exchange loss	683	926	(243)	(26)%
Interest expense, net	6,991	6,659	332	5 %
Income from operations before income taxes	25,307	4,129	21,178	NM
Provision for income taxes	7,239	3,480	3,759	NM
Net income	\$18,068	\$649	\$17,419	NM

Revenues

Revenues increased 36% to \$463.6 million for the first half of 2018, compared to \$341.7 million for the first half of 2017. This \$121.8 million increase includes a \$100.7 million (44%) increase in revenues in North America, comprised of a \$50.2 million increase in our Fluids Systems segment and a \$50.4 million increase in the Mats and Integrated Services segment, which includes approximately \$35 million contributed from the WSG acquisition. Revenues from our international operations increased by \$21.2 million (19%), primarily driven by increased activity in our EMEA region in the Fluids Systems segment. Additional information regarding the change in revenues is provided within the operating segment results below.

Cost of revenues

Cost of revenues increased 35% to \$374.9 million for the first half of 2018, compared to \$278.0 million for the first half of 2017. The 35% increase in cost of revenues was primarily driven by the 36% increase in revenues described above. Additional information regarding the change in cost of revenues is provided within the operating segment results below.

Selling, general and administrative expenses

Selling, general and administrative expenses increased \$3.6 million (7%) to \$55.7 million for the first half of 2018, compared to \$52.0 million for the first half of 2017. The increase in expense was primarily driven by an increase in the Mats and Integrated Services segment, including costs attributable to the WSG acquisition, partially offset by lower spending related to legal matters. Selling, general and administrative expenses as a percentage of revenues decreased to 12% for the first half of 2018 from 15% for the first half of 2017.

Foreign currency exchange

Foreign currency exchange was a \$0.7 million loss for the first half of 2018 compared to a \$0.9 million loss for the first half of 2017, and reflects the impact of currency translation on assets and liabilities (including intercompany balances) that are denominated in currencies other than functional currencies.

Interest expense, net

Interest expense was \$7.0 million for the first half of 2018 compared to \$6.7 million for the first half of 2017. Interest expense for the first half of 2018 and 2017 includes \$2.6 million and \$2.7 million, respectively, in noncash amortization of original issue discount and debt issuance costs.

Provision for income taxes

The provision for income taxes was \$7.2 million for the first half of 2018, reflecting an effective tax rate of 29%, compared to \$3.5 million for the first half of 2017, reflecting an effective tax rate of 84%. The provision for income taxes for the first half of 2018 includes a \$0.8 million net excess tax benefit primarily related to the vesting of certain stock-based compensation awards during the period. As discussed above, the impact of the Tax Act on our effective

tax rate in future periods will depend in large

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part on the relative contribution of our domestic and foreign earnings, as well as finalization of the provisional accounting for the Tax Act in 2018. The 2017 effective tax rate was negatively impacted by pre-tax losses in certain international jurisdictions, most notably Australia, and non-deductible expenses relative to the amount of pre-tax income.

Operating Segment Results

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

(In thousands)	First Half		2018 vs 2017	
	2018	2017	\$	%
Revenues				
Fluids systems	\$357,117	\$286,673	\$70,444	25%
Mats and integrated services	106,438	55,038	51,400	93%
Total revenues	\$463,555	\$341,711	\$121,844	36%
Operating income (loss)				
Fluids systems	\$23,804	\$12,215	\$11,589	
Mats and integrated services	26,939	17,821	9,118	
Corporate office	(17,762)	(18,322)	560	
Operating income	\$32,981	\$11,714	\$21,267	

Segment operating margin

Fluids systems	6.7	% 4.3	%
Mats and integrated services	25.3	% 32.4	%

Fluids Systems

Revenues

Total revenues for this segment consisted of the following:

(In thousands)	First Half		2018 vs 2017	
	2018	2017	\$	%
United States	\$196,802	\$153,826	\$42,976	28 %
Canada	34,357	27,089	7,268	27 %
Total North America	231,159	180,915	50,244	28 %
Latin America	16,817	17,658	(841)	(5)%
Total Western Hemisphere	247,976	198,573	49,403	25 %
EMEA	100,981	85,296	15,685	18 %
Asia Pacific	8,160	2,804	5,356	191 %
Total Eastern Hemisphere	109,141	88,100	21,041	24 %

Total Fluids Systems revenues \$357,117 \$286,673 \$70,444 25 %

North American revenues increased 28% to \$231.2 million for the first half of 2018 compared to \$180.9 million for the first half of 2017. This increase is primarily attributable to the 16% increase in North American average rig count along with market share gains in both the North American land markets and the offshore Gulf of Mexico market, along with an increase in customer spending per well in the first half of 2018, as compared to the prior year.

Internationally, revenues increased 19% to \$126.0 million for the first half of 2018 compared to \$105.8 million for the first half of 2017. This increase is primarily attributable to a \$17.1 million improvement in Romania, as higher oil prices are

resulting in an increase in drilling activity, along with a \$5.5 million increase in Australia related to the Baker Hughes Greater Enfield project described above.

Operating Income

The Fluids Systems segment generated operating income of \$23.8 million for the first half of 2018 compared to operating income of \$12.2 million for the first half of 2017. The improvement in operating results includes a \$9.3 million improvement from North American operations, largely attributable to the \$50.2 million increase in revenues described above. Operating income from international operations increased by \$2.3 million, primarily related to the increase in revenues in Romania and Australia, as described above.

Mats and Integrated Services

Revenues

Total revenues for this segment consisted of the following:

(In thousands)	First Half		2018 vs 2017	
	2018	2017	\$	%
Service revenues	\$45,751	\$14,346	\$31,405	219%
Rental revenues	39,750	30,362	9,388	31%
Product sales revenues	20,937	10,330	10,607	103%
Total Mats and Integrated Services revenues	\$106,438	\$55,038	\$51,400	93%

Service revenues for the first half of 2018 increased \$31.4 million compared to the first half of 2017. Substantially all of this increase is attributable to the WSG acquisition completed in November 2017. Rental revenues for the first half of 2018 increased \$9.4 million compared to the first half of 2017. This increase is primarily attributable to the impact of our continuing efforts to expand into non-E&P rental markets.

Product sales revenues were \$20.9 million for the first half of 2018 compared to \$10.3 million for the first half of 2017. Revenues from product sales have typically fluctuated based on the timing of mat orders from customers, however, the improvement in 2018 is primarily attributable to our continued efforts to expand our sales into non-E&P markets.

Operating Income

Segment operating income increased by \$9.1 million to \$26.9 million for the first half of 2018 compared to \$17.8 million for the first half of 2017, attributable to increases in revenues as described above.

Operating results for the first half of 2018 include approximately \$35 million of revenues associated with the WSG acquisition completed in November 2017. The acquired business is predominately focused on site services, as opposed to product sales and rentals, which has shifted the sales mix toward service revenues in 2018, as compared to 2017. While we expect the incremental service revenues to provide a positive impact to segment operating income, this mix shift, along with depreciation and amortization expense related to the purchase accounting allocation, is expected to reduce the overall segment operating margin in 2018 as compared to 2017. See Note 2 for further discussion of the acquisition.

Corporate Office

Corporate office expenses decreased \$0.6 million to \$17.8 million for the first half of 2018 compared to \$18.3 million for the first half of 2017. This decrease reflects lower spending related to legal matters and strategic planning efforts partially offset by an increase in personnel costs.

Liquidity and Capital Resources

Net cash provided by operating activities was \$20.7 million for the first half of 2018 compared to \$22.3 million for the first half of 2017. The first half of 2017 included the receipt of a \$37.2 million tax refund. Excluding this amount, net cash provided by operating activities increased by \$35.6 million in the first half of 2018 compared to the first half of 2017 due to an improvement in operating results and decreases in the growth of working capital. During the first half of 2018, net income adjusted for non-cash items provided cash of \$49.4 million, while changes in working capital used \$28.7 million of cash.

Net cash used in investing activities was \$37.8 million for the first half of 2018, including capital expenditures of \$24.5 million and the \$14 million payment to refund a portion of the net sales price of the Environmental Services business (see Note 9 for further discussion). Capital expenditures during the first half of 2018 included \$15.3 million for the Mats and Integrated Services segment, including \$11.4 million of investments in the mat rental fleet, and \$7.4 million for the Fluids Systems segment.

Net cash provided by financing activities was \$35.1 million for the first half of 2018. We borrowed a net \$32.3 million on our ABL Facility (as defined below) during the first half of 2018 primarily to fund investing activities as described above.

As of June 30, 2018, we had cash on hand of \$71.7 million, substantially all of which resides within our international subsidiaries, including 43% of our total cash balance in Algeria. As a result of the Tax Act as previously described, we intend to pursue repatriation of available cash in certain of our international subsidiaries subject to cash requirements to support the strategic objectives of these international subsidiaries and finalization of our analysis of the impacts of the Tax Act. We anticipate that future working capital requirements for our operations will fluctuate directionally with revenues. In addition, we expect total 2018 capital expenditures to be approximately \$40 million. Availability under our ABL Facility also provides additional liquidity as discussed further below. Total availability under the ABL Facility will fluctuate directionally based on the level of eligible accounts receivable, inventory, and, subject to satisfaction of certain financial covenants as described below, composite mats included in the rental fleet. We expect our available cash on-hand, cash generated by operations and remaining availability under our ABL Facility to be adequate to fund current operations during the next 12 months.

Our capitalization is as follows:

(In thousands)	June 30, 2018	December 31, 2017
2021 Convertible Notes	\$ 100,000	\$ 100,000
ABL Facility	113,900	81,600
Other debt	3,584	1,518
Unamortized discount and debt issuance costs	(20,264)	(22,643)
Total debt	\$ 197,220	\$ 160,475
Stockholder's equity	554,723	547,480
Total capitalization	\$ 751,943	\$ 707,955

Total debt to capitalization 26.2 % 22.7 %

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 commencing after the calendar quarter ending on March 31, 2017 (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 July 26, 2018, 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.

Asset-Based Loan Facility. In May 2016, we entered into an asset-based revolving credit agreement which replaced our previous credit agreement. In October 2017, we entered into an Amended and Restated Credit Agreement (as amended, the “ABL Facility”) which amended and restated the prior asset-based revolving credit agreement. The ABL Facility provides financing of up to \$150.0 million available for borrowings (inclusive of letters of credit) and can be increased up to a maximum capacity of \$225.0 million, subject to certain conditions. As of June 30, 2018, our total borrowing base availability under the ABL Facility was \$150.0 million, of which \$113.9 million was drawn, resulting in remaining availability of \$36.1 million.

The ABL Facility terminates on October 17, 2022; however, the ABL Facility has a springing maturity date that will accelerate the maturity of the ABL Facility to September 1, 2021 if, prior to such date, the 2021 Convertible Notes have not either been repurchased, redeemed, converted or we have not provided sufficient funds to repay the 2021 Convertible Notes in full on their maturity date. For this purpose, funds may be provided in cash to an escrow agent or a combination of cash to an escrow agent and the assignment of a portion of availability under the ABL Facility. The ABL Facility requires compliance with a minimum fixed charge coverage ratio and minimum unused availability of \$25.0 million to utilize borrowings or assignment of availability under the ABL Facility towards funding the repayment of the 2021 Convertible Notes.

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 such 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.

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 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 as defined in the ABL Facility. As of June 30, 2018, the applicable margin for borrowings under our ABL Facility was 200 basis points with respect to LIBOR borrowings and 100 basis points with respect to base rate borrowings. The weighted average interest rate for the ABL Facility was 4.1% at June 30, 2018. In addition, we are required to pay a commitment fee on the unused portion of the ABL Facility ranging from 25 to 37.5 basis points, based on the ratio of debt to consolidated EBITDA, as defined in the ABL Facility. The applicable commitment fee as of June 30, 2018 was 37.5 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 \$22.5 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.

Other Debt. Our foreign subsidiaries in India and Canada maintain local credit arrangements consisting primarily of lines of credit which are renewed on an annual basis. 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 \$0.5 million and \$1.0 million, respectively, outstanding under these arrangements at June 30, 2018 and December 31, 2017.

At June 30, 2018, we had letters of credit issued and outstanding of \$5.8 million that are collateralized by \$6.6 million in restricted cash. Additionally, our foreign operations had \$26.1 million outstanding in letters of credit and other guarantees, primarily issued under a credit arrangement in Italy as well as certain letters of credit that are collateralized by \$2.2 million in restricted cash.

Critical Accounting Estimates and Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which requires us to make assumptions, estimates and judgments that affect the amounts and disclosures reported. Significant estimates used in preparing our condensed consolidated financial statements include the following: allowances for doubtful accounts, reserves for self-insured retention under insurance programs, estimated performance and values associated with employee incentive programs, fair values used for impairments of long-lived assets, including goodwill and other intangibles, the provisional accounting for the Tax Act, and valuation allowances for deferred tax assets. Our estimates are based on historical experience and on our future expectations that we believe to be reasonable. The combination of these factors forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from our current estimates and those differences may be material.

For additional discussion of our critical accounting estimates and policies, see “Management's Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2017. Except as set forth below, our critical accounting estimates and policies have not materially changed since December 31, 2017.

In May 2014, the FASB amended the guidance for revenue from contracts with customers. We adopted this new guidance as of January 1, 2018 using the modified retrospective transition method. The adoption of this new guidance primarily affected the timing of revenue recognition for drilling fluid additive products provided to customers in the delivery of an integrated fluid system in our U.S. drilling fluids business. Under previous guidance, we recognized revenue for these products upon shipment of materials and passage of title, with a reserve for estimated product returns. Under the new guidance, we recognize revenue for these products when they are utilized, which generally occurs at the time of consumption by the customer. See Note 1 for additional information.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

At June 30, 2018, we had total principal amounts outstanding under financing arrangements of \$217.5 million, including \$100.0 million of borrowings under our 2021 Convertible Notes which bear interest at a fixed rate of 4% and \$113.9 million of borrowings under our ABL Facility. Borrowings under our ABL Facility are subject to a variable interest rate as determined by the ABL Facility. The weighted average interest rate at June 30, 2018 for the ABL Facility is 4.1%. Based on the balance of variable rate debt at June 30, 2018, a 100 basis-point increase in short-term interest rates would have increased annual pre-tax interest expense by \$1.1 million.

Foreign Currency

Our principal foreign operations are conducted in certain areas of EMEA, Latin America, Asia Pacific, and Canada. We have foreign currency exchange risks associated with these operations, which are conducted principally in the foreign currency of the jurisdictions in which we operate including European euros, Algerian dinar, Romanian new leu, Canadian dollars, Australian dollars, British pounds and Brazilian reais. Historically, we have not used off-balance sheet financial hedging instruments to manage foreign currency risks when we enter into a transaction denominated in a currency other than our local currencies.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of June 30, 2018, the end of the period covered by this quarterly report.

Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting during the quarter ended June 30, 2018 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

Escrow Claims Related to the Sale of the Environmental Services Business

Newpark Resources, Inc. v. Ecoserv, LLC. On July 13, 2015, we filed a declaratory action in the District Court in Harris County, Texas (80th Judicial District) seeking release of \$8.0 million of funds placed in escrow by Ecoserv, LLC (“Ecoserv”) in connection with its purchase of our Environmental Services business. Ecoserv filed a counterclaim asserting that we breached certain representations and covenants contained in the purchase/sale agreement including, among other things, the condition of certain assets. In addition, Ecoserv has alleged that Newpark committed fraud in connection with the March 2014 transaction.

Under the terms of the March 2014 sale of the Environmental Services business to 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 purchase/sale agreement. In December 2014, we received a letter from Ecoserv asserting that we had breached certain representations and warranties contained in the purchase/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. In July 2015, we filed the action against Ecoserv referenced above. Thereafter, Ecoserv filed a counterclaim seeking recovery in excess of the escrow funds based on the alleged breach of representations and covenants in the purchase/sale agreement. Ecoserv also alleged that we committed fraud in connection with the March 2014 transaction. Following commencement of the trial in December 2017, we reached a settlement agreement with Ecoserv in the first quarter of 2018, under which Ecoserv received \$22.0 million in cash, effectively reducing the net sales price of the Environmental Services business by such amount in exchange for dismissal of the pending claims in the lawsuit, and release of any future claims related to the March 2014 transaction. As a result of the settlement, we recognized a charge to discontinued operations in the fourth quarter of 2017 for \$22.0 million (\$17.4 million net of tax) to reduce the previously recognized gain from the sale of the Environmental Services business. The reduction in sales price was funded in the first quarter of 2018 with a cash payment of \$14.0 million and release of the \$8.0 million that had been held in escrow since the March 2014 transaction. In March 2018, the lawsuit was dismissed with prejudice. Litigation expenses related to this matter are included in corporate office expenses in operating income.

ITEM 1A. Risk Factors

There have been no material changes during the period ended June 30, 2018 in our “Risk Factors” as discussed in Item 1A to our Annual Report on Form 10 K for the year ended December 31, 2017.

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

a) Not applicable

b) Not applicable

c) The following table details our repurchases of shares of our common stock, for the three months ended June 30, 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs
April 2018	6,087	\$ 9.80	—	\$ 33.5
May 2018	—	\$ —	—	\$ 33.5
June 2018	274,497	\$ 10.83	—	\$ 33.5
Total	280,584	\$ 10.80	—	

(1) During the three months ended June 30, 2018, we purchased an aggregate of 280,584 shares surrendered in lieu of taxes under vesting of restricted shares.

Our Board of Directors has approved a repurchase program that authorizes us to purchase up to \$100.0 million of our outstanding shares of common stock in the open market or as otherwise determined by management, subject to certain limitations under the ABL Facility and other factors. The repurchase program has no specific term. 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 share repurchases under the program during the first half of 2018 or 2017. As of June 30, 2018, there was \$33.5 million of authorization remaining under the program.

We have not paid any dividends during the three most recent fiscal years or any subsequent interim period, and we do not intend to pay any cash dividends in the foreseeable future. In addition, our ABL Facility contains covenants which limit the payment of dividends on our common stock.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

The information concerning mine safety violations and other regulatory matters required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95.1 of this Quarterly Report on Form 10-Q, which is incorporated by reference.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

The exhibits listed are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

- *31.1 Certification of Paul L. Howes pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31.2 Certification of Gregg S. Piontek pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *32.1 Certification of Paul L. Howes pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32.2 Certification of Gregg S. Piontek pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *95.1 Reporting requirements under the Mine Safety and Health Administration
- *101.INS XBRL Instance Document
- *101.SCH XBRL Schema Document
- *101.CAL XBRL Calculation Linkbase Document
- *101.DEF XBRL Definition Linkbase Document
- *101.LAB XBRL Label Linkbase Document
- *101.PRE XBRL Presentation Linkbase Document
- * Filed herewith

NEWPARK RESOURCES, INC.

SIGNATURES

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

Date: July 27, 2018

NEWPARK RESOURCES, INC.

(Registrant)

By: /s/ Paul L. Howes

Paul L. Howes

President and Chief Executive Officer

(Principal Executive Officer)

By: /s/ Gregg S. Piontek

Gregg S. Piontek

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

By: /s/ Douglas L. White

Douglas L. White

Vice President, Corporate Controller and Chief Accounting Officer

(Principal Accounting Officer)