

NEWPARK RESOURCES INC

Form 10-K/A

October 10, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
Amendment No. 2
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005
Commission File No. 1-2960
Newpark Resources, Inc.
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

72-1123385

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

3850 N. Causeway, Suite 1770

Metairie, Louisiana

(Address of principal executive
offices)

70002

(Zip Code)

(504) 838-8222

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, \$0.01 par value
8-5/8% Senior Subordinated Notes due 2007,
Series B

**Name of each exchange
on which registered**

New York Stock Exchange
New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the price at which the common equity was last sold as of June 30, 2005, was \$614.3 million. The aggregate market value has been computed by reference to the closing sales price on such date, as reported by The New York Stock Exchange.

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

Documents Incorporated by Reference

None.

Table of Contents

EXPLANATORY NOTE

We are amending our Annual Report on Form 10-K (the Original Filing) for the year ended December 31, 2005, to restate our consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 and the related disclosures. This Form 10-K/A also includes the restatement of selected financial data as of and for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 and certain of the financial information presented in Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations. We have not amended and do not anticipate amending our Annual Reports on Form 10-K for any years prior to December 31, 2005. See Note A to the consolidated financial statements for a summary of the restated amounts.

In early April 2006, the internal auditor of Newpark Resources, Inc. (the Company) advised the Audit Committee of the Company's Board of Directors that he had concerns regarding the propriety of several vendor invoices in the aggregate amount of approximately \$1.75 million. This amount had been paid in the latter part of calendar 2005 by one of the Company's subsidiaries, Soloco, Inc., to a third-party with whom Soloco had a long-term commercial relationship (the Third Party). The internal auditor advised the Audit Committee that Soloco could not substantiate the Third Party's delivery of the property to which the invoices pertained. Separately, the newly appointed Chief Executive Officer of the Company conducted several preliminary interviews resulting in what appeared to confirm the internal auditor's concerns. The Audit Committee determined it was appropriate to engage outside independent counsel to conduct an investigation of the circumstances related to these invoices. As directed by the Audit Committee, the investigation focused initially on whether Soloco improperly paid these and other invoices and if so whether the payments had been made unknowingly or intentionally. The Audit Committee also asked the special investigation team (comprised of outside special counsel, an investigative firm and a forensic accounting group retained by special counsel) to determine whether there was credible evidence suggesting that any members of the Company's management group had had prior knowledge of or participated in the processing, approval or payment of the invoices. Finally, the Audit Committee asked outside special counsel to review any other material financial transactions between Soloco and the Third Party or other vendors, to determine whether the financial statements also had failed to properly reflect those transactions or whether those transactions had been on commercial terms that were not at arm's-length.

During the course of the next several months, outside counsel and the remainder of the investigative team conducted a thorough investigation of these matters. The team conducted extensive interviews of employees and others potentially involved in or potentially having material information related to the matters under investigation. During the investigation, the team concluded that a number of transactions between Soloco and the Third Party lacked substantial commercial and economic substance. The Audit Committee agreed. Accordingly, it was determined that these transactions had not been properly recorded in the consolidated financial statements for those periods in which the transactions were conducted and, in certain instances, in subsequent periods as well, since the value assigned to the initial transactions were initially recorded as assets and amortized to operations in subsequent accounting periods. These transactions can be summarized as follows:

Table of Contents

Soloco purchased licenses in 1994 (\$1.8 million), 1996 (\$4.5 million) and 2002 (\$1.8 million) for the exclusive rights to use, distribute and sell the Third Party's products (at first, domestic distribution rights and later, international distribution rights). At the date it acquired those rights, the Company capitalized these intangible assets and assigned estimated useful lives to amortize the related costs over the duration of the license agreements. However, the investigative team found credible evidence that the amortization periods assigned to the 1994 and 1996 licenses exceeded the duration of the licenses underlying patents. Accordingly, the amortization period has been corrected to correspond to the expiration in 2001 of the underlying patents. With respect to the 2002 license, the investigative team found credible evidence that this transaction lacked substantial commercial and economic substance. Accordingly, the Company has concluded that previously capitalized costs should not have been capitalized. These costs have now been written off as of 2002. In addition, amortization charges originally charged to operations for those rights have been reversed in the restated consolidated financial statements.

Soloco entered into purported credit sale transactions with the Third Party at various times in 2002 and 2003. The investigative team found credible evidence that, in certain instances, the product was never shipped or was subject to repurchase, and therefore, did not meet the criteria to record a sale. Accordingly, revenue of \$900,000 in 2003 and \$3.3 million in 2002 should not have been recognized. Those amounts have been reversed in the restated consolidated financial statements.

Soloco and the Third Party entered into numerous other transactions and the investigative team found credible evidence that these transactions lacked commercial and economic substance. These transactions included:

- o Soloco sold certain products located in Venezuela in 2000 to the Third Party and recorded a promissory note receivable for \$2.4 million.
- o Soloco paid \$1.6 million to the Third Party in 2004 to reacquire certain distribution rights in South America and the related costs were capitalized and amortized over the estimated useful life of the rights.
- o Soloco made payments to the Third Party for the purchase of certain products from the Third Party in 2004 (\$1.8 million) and 2005 (\$2.0 million), which it accounted for as fixed assets to be depreciated over their estimated useful lives. Soloco also made payments to the Third Party for the purchase of other products, which were expensed in the period that they were made, totaling \$700,000 in 2004 and \$500,000 in 2005. The investigative team also provided evidence that these assets and other products (collectively the Purported Purchases) were not received by Soloco. The investigative team found additional evidence that the payments for the above mentioned South American distribution rights and the Purported Purchases appeared to be the source of the collections received in 2004 and 2005 on the credit sale transactions and the Venezuelan note described above.

The Company has restated the financial statements to reverse the effects of these non-substantive cash transactions. Following the initiation of the investigation in April 2006, the Third Party delivered property to the Company totaling \$1.8 million.

Table of Contents

In the meantime, given the recent focus by the Securities and Exchange Commission and the financial markets on the timing and pricing of stock option grants, the Audit Committee instructed special counsel to review the Company's practices in granting stock options. The investigation revealed that a substantial number of the Company's stock options granted between 1998 and 2003 had been dated and priced in a manner inconsistent with the terms of the stock option plan.

The terms of the plan required issuance and pricing of the options as of the date that the Compensation Committee took action to approve their issuance, while in many instances, the options were assigned an exercise price based on an earlier date and at a lower price than what the exercise price would have been if the actual date of the Compensation Committee action had been used. Because the prices at the originally stated grant dates were lower than the prices on the actual dates of the authorization, the Company determined that it should have recognized material amounts of stock-based compensation expense which were not previously accounted for in the previously issued consolidated financial statements.

In connection with those instances in which the exercise price of stock options was established based on a stated grant date that was different from the actual authorization date, the Company has restated its historical consolidated financial statements to record an increase in stock-based compensation expense over the related vesting period for the intrinsic value at the actual grant date.

Summarized below are the effects of the restatement for the items noted above on previously reported consolidated net income. Miscellaneous accounting adjustments in the following table principally include differences that were identified during audits of the Company and which had not been previously recorded because the Company previously had determined these items were individually and in the aggregate immaterial to the financial statements. In conjunction with the restated financial statements the Company corrected these items by recording them in the periods to which they were attributable.

Increase (Decrease)	2005	2004	2003	1998 through 2002
Matters related to intangible assets	\$ 731,584	\$ 653,425	\$ 627,372	\$ (4,984,462)
Matters related to purported credit sales to Third Party			(487,500)	(2,187,300)
Matters related to transactions that lacked commercial and economic substance	1,046,811	749,663		(2,370,000)
Stock-based compensation expense ⁽¹⁾	(203,083)	(256,100)	(818,775)	(9,311,900)
Miscellaneous accounting adjustments	(486,135)	(309,158)	70,735	(589,030)
Total adjustment to income (loss) before provision for income taxes	1,089,177	837,830	(608,168)	(19,442,692)
Income tax impact of restatement adjustments	(447,779)	(296,881)	175,816	6,736,226
Total adjustments to net income	\$ 641,398	\$ 540,949	\$(432,352)	\$(12,706,466)

(1) The effects of the restatement for stock-based compensation expense for years prior to

2003 are as
follows: 2002
\$1,413,418;
2001
\$1,941,721;
2000
\$2,699,768;
1999 -
\$1,924,592; and
1998
\$1,332,401.

Table of Contents

Summarized below are the impacts of the restatement on diluted income/(loss) per common and common equivalent shares for each of the three years in the period ended December 31, 2005:

Diluted income per common and common equivalent shares:

	2005	2004	2003
As previously reported	\$.25	\$.05	\$.01
Effect of restatement	\$.01	\$.00	\$ (.01)
As restated	\$.26	\$.05	\$.00

The restatement reduced stockholders' equity as of January 1, 2003 by \$3.9 million.

Except for the restated information described above, this Form 10-K/A continues to describe conditions as of the date of the Original Filing and we have not updated the disclosures contained herein to reflect all events that occurred at a later date. Events occurring subsequent to the filing of the Original Filing have been addressed in reports filed with the Securities and Exchange Commission subsequent to the date of the Original Filing, including the announcement of the decision to shut down the operations of Newpark Environmental Water Solutions, LLC, or NEWS, and to dispose of or redeploy all of the assets used in connection with its operations. Certain of these events are described in Note T to the consolidated financial statements. In addition, we have included as exhibits to this amendment new certifications of our Chief Executive Officer and Acting Chief Financial Officer. We encourage the reader to read the document in its entirety as items in Part I and II have been revised to reflect current management's view of the Company.

NEWPARK RESOURCES, INC.
INDEX TO AMENDMENT NO. 2 TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2005

Item Number	Description	Page Number
<u>PART I</u>		
<u>1</u>	<u>Business</u>	8
<u>1A</u>	<u>Risk Factors</u>	16
<u>1B</u>	<u>Unresolved Staff Comments</u>	24
<u>2</u>	<u>Properties</u>	24
<u>3</u>	<u>Legal Proceedings</u>	25
<u>4</u>	<u>Submission of Matters to a Vote of Security Holders</u>	26
<u>PART II</u>		
<u>5</u>	<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	26
<u>6</u>	<u>Selected Financial Data</u>	27
<u>7</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>7A</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	49
<u>8</u>	<u>Financial Statements and Supplementary Data</u>	51
<u>9</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	132
<u>9A</u>	<u>Controls and Procedures</u>	132
<u>9B</u>	<u>Other Information</u>	138
<u>PART IV</u>		
<u>15</u>	<u>Exhibits and Financial Statement Schedules</u>	138
	<u>Signatures</u>	139
	<u>Amended and Restated Bylaws</u>	
	<u>Ratio of Earnings to Fixed Charges</u>	
	<u>Consent of Independent Registered Public Accounting Firm</u>	
	<u>Certification of Paul L. Howes pursuant to Rule 13a-14a/15d-14a</u>	
	<u>Certification of Eric M. Wingerter pursuant to Rule 13a-14a/15d-14a</u>	
	<u>Certification of Paul L. Howes pursuant to Section 1350</u>	
	<u>Certification of Eric M. Wingerter pursuant to Section 1350</u>	

Statements we make in this Annual Report on Form 10-K/A which express a belief, expectation or intention, as well as those that are not historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks, uncertainties and assumptions, including those to which we refer under the heading "Cautionary Statement Concerning Forward-Looking Statements" which follows and in Item 1A, "Risk Factors," in Part I of this Annual Report.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

The Annual Report on Form 10-K/A contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We also may provide oral or written forward-looking information

Table of Contents

in other materials we release to the public. The words anticipates, believes, estimates, expects, plans, intends, similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying them. These forward-looking statements reflect the current views of our management; however, various risks, uncertainties and contingencies, including the risks identified below, could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, these statements, including the success or failure of our efforts to implement our business strategy.

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

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

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

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

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

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

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

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

failure to maintain material rights related to the proprietary water treatment technology;

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

the highly competitive nature of our business;

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

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

failure to gain continued acceptance or market share for our products and services, including our DeepDrill® and FlexDrill technology, our Dura-Base and Bravo mats and the proprietary water treatment technology we are using;

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

adverse weather conditions that could disrupt drilling operations and reduce the demand for our services;

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

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

inability to maintain adequate insurance against risks in our business at economical rates;

Table of Contents

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

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

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

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 of this Annual Report on Form 10-K.

PART I

ITEM 1. Business

General

Newpark Resources, Inc. was organized in 1932 as a Nevada corporation. In April 1991, we changed our state of incorporation to Delaware. We are a diversified oil and gas industry supplier with three operating segments: fluids systems and engineering, mats and integrated services, and environmental services.

We provide these products and services principally to the oil and gas exploration and production (E&P) industry in the U.S. Gulf Coast, West Texas, U.S. Mid-continent, U.S. Rocky Mountains, Canada, Mexico and areas of Europe and North Africa surrounding the Mediterranean Sea. We also are planning to introduce our products and services in Brazil in 2006. Further, we are expanding our presence outside the E&P sector, particularly in mats and integrated services, where we are marketing to utilities, municipalities, and government sectors.

Our principal executive offices are located at 3850 North Causeway Boulevard, Suite 1770, Metairie, Louisiana 70002. Our telephone number is (504) 838-8222. You can find more information about us at our Internet website located at www.newpark.com. Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those reports are available free of charge on or through our Internet website as soon as reasonably practicable after we electronically file these materials with, or furnish them to, the Securities and Exchange Commission. We make our website content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference in this Form 10-K/A.

Following is a summary of the industry fundamentals in the markets we serve and our business strategies. We also have included a discussion of our business segments, including a description of the products and services we offer. Segment and geographic financial information appears in Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note R.

When referring to Newpark and using phrases such as we, us and our, our intent is to refer to Newpark Resources Inc. and its subsidiaries as a whole or on a segment basis, depending on the context in which the statements are made.

Table of Contents

Industry Fundamentals

Historically, several factors have driven demand for our services, including: (i) supply, demand and pricing of oil and gas commodities which drive E&P development activity; (ii) a trend toward deeper and otherwise more complex drilling that drives drilling fluid consumption and increasing technical requirements; (iii) the continued trend of E&P development into more environmentally difficult areas; (iv) the use of increasingly complex drilling techniques that tend to generate more waste; and (v) increased environmental regulation of E&P waste.

Demand for most of our services is related to the level, type, depth and complexity of oil and gas drilling. The most widely accepted measure of activity is the Baker-Hughes Rotary Rig Count, which has been rising since early 2002 in response to strengthening oil and gas prices. This growth in activity was marked by record high utilization of available rigs, personnel and support equipment in 2005.

We have benefited from our customers' increased development activity, both in traditional basins and in frontier exploration activity. Our positioning with financially strong and aggressive independent players and increased activities with major integrated oil and gas exploration and production companies have helped to propel our domestic drilling fluids growth.

In our core North American markets we have seen the following trends which have supported our growth and profitability:

Increased drilling activity in mature areas of North America as economics of previously marginal projects have become attractive in the recent high energy price environment

Improved application of technological advances such as computer-enhanced interpretation of three-dimensional seismic data, improved rig capabilities, and advanced drilling tools and fluids. These technologies help reduce the risk of finding oil and gas and have resulted in driving favorable economics for E&P operators. These more complex wells require innovative drilling fluids systems that accelerate penetration of these formations thereby reducing total well cost.

Increased willingness of E&P operators to drill in coastal marshes and inland waters where access is expensive. These projects rely heavily on our temporary infrastructure services such as those provided by our mats and integrated services businesses.

Deep shales and other hard rock formations with limited permeability in the Mid-continent and the Rockies are being exploited with advanced fracture stimulation technology. This technology facilitates production of natural gas from these impermeable formations.

Growth of Canadian E&P activity, which results in significant increase in demand for mats to extend drilling season (due to permafrost related stability issues).

We do see a trend, within the United States, that the shallower reserves available in the historic gas-producing basins are approaching full development, and the longer-term economic potential of the remaining prospects appears to be declining. At the same time, the more prolific oil and gas opportunities increasingly depend on prospects outside the United States and in the expansion of frontier geologic formations. Many operators have begun to shift the focus of their drilling programs towards deeper geologic structures, which carry inherently higher risks of both economic and physical failure.

Table of Contents

The oilfield market for environmental services has grown due to increasingly stringent regulations that restrict the discharge of E&P wastes into the environment. Effective February 19, 2002, the U.S. Environmental Protection Agency (the EPA) published new regulations significantly limiting discharges of drilling wastes contaminated with synthetic-based mud (SBM) into the offshore Gulf of Mexico. These new regulations have had a material effect on the industry's disposal practices in the offshore market. Louisiana, Texas and other states have enacted comprehensive laws and regulations governing the proper handling of E&P waste and naturally occurring radioactive material (NORM). Regulations also have been proposed in other states. As a result, waste generators and landowners have become increasingly aware of the need for proper treatment and disposal of this waste in both drilling new wells and remediating production facilities. As the search for new and increased sources of energy expands to new geographic markets and as the EPA discharge limitations in those markets tighten, operators are seeking new and improved methods of managing waste streams created in exploration and production.

Business Strategy

Following are the principal components of our business strategy:

Continue to broaden our geographic and customer markets to reduce exposure and risk inherent in the maturing North American on-shore markets and to position ourselves in industry growth sectors. We have, since 1997, branched out from being a primarily U.S. Gulf Coast provider, to being much more geographically diverse. We have expanded our position into West Texas, the U.S. Mid-continent, the U.S. Rocky Mountains, Canada, Mexico and areas of Europe and North Africa surrounding the Mediterranean Sea. We continue to broaden geographically and in October 2005 we executed a memorandum of understanding to form a new company that will provide drilling fluids products and services in Brazil, in partnership with a well-established Brazilian company. With this geographic expansion, we have diversified our customer base, and now serve not only small-to-medium sized independent E&P players, but also several large independents and major integrated energy companies.

Lead the industry in technical drilling fluids products and services. Our strategy is to distinguish our fluids products and services from those of our competitors by providing high-performing solutions geared towards complex applications, with particular focus on water-based products. Our ability to provide high-performing and environmentally safe systems, products and services will play a major role in preventing or solving our customers' drilling problems, while reducing their total cost to drill a well. We seek to continue to develop strong relationships with our customers. We will leverage our integrated barite position to ensure that we offer cost competitive solutions.

Further develop the mats business. We seek to expand our mats business into new geographic regions (international growth), new markets (outside E&P applications, such as utilities and municipal use), and new applications (heavy duty requirements), building upon our market leading position. We seek to complement our wood-based mats with increased output and sales of our high performance Dura-Base™ mats. In 2005, we completed the acquisition of the third-party ownership in our Dura-Base™ mat manufacturing facility. We now are implementing improvements to that product family based on our experience with rental and sales of this product.

Expand E&P waste-related environmental services. We seek to grow this business, particularly after the adverse impact of recent Gulf Coast hurricanes which reduced E&P activities. We will position ourselves for rebound in Gulf Coast activities and

Table of Contents

will continue to optimize our logistics infrastructure. We will also leverage our reputation with our customers as a reliable service provider.

Integrate our services offerings (where possible). We seek to leverage our services to the E&P marketplace in an integrated fashion in order to bundle services and leverage customer relationships.

We believe the following business strengths will help us to execute our strategy:

Proprietary Products and Services. Over the past 15 years, we have acquired, developed, and improved our access to patented or proprietary technology and know-how, which has enabled us to provide innovative and unique solutions to oilfield construction and waste disposal issues. We have developed and expect to continue to introduce similarly innovative products in our drilling fluids business. We believe increased customer acceptance of our proprietary products and services will enable us to take advantage of upturns in drilling and production activity. These proprietary products and services include our high-performance water-based fluids systems, patented mats and waste injection technology.

Low Cost Infrastructure. We have an infrastructure, through our Excalibar unit, to access and process quality barite as a raw material for our drilling fluids. In addition, we have established an efficient logistics network for transporting fluids and additives to our customers well locations. Further, we have assembled a low cost infrastructure to receive and process E&P waste in the U.S. Gulf Coast region that includes strategically located transfer stations for receiving waste, a large fleet of barges for cost-efficient transportation of waste, and geologically-secure injection disposal sites.

Experience in the Regulatory Environment. We believe our operating history provides us with a competitive advantage in the highly regulated oilfield environmental services segment. As a result of working closely with regulatory officials and citizens groups, we gained acceptance of our proprietary injection technology and received a series of permits for our disposal facilities, including a permit received in 1996 allowing the disposal of NORM at our Big Hill, Texas facility. We further believe that increasing environmental regulation and activism will inhibit the widespread acceptance of other disposal methods and the permitting of additional disposal facilities. This experience and reputation have allowed us to broaden our permit authority and enter new markets in the waste business. Through our use of wash water recycling equipment, we also assist our customers in meeting waste reduction regulations by reducing the total number of waste barrels to be disposed.

Experienced Management Team. Our executive and operating management team has built and augmented our capabilities over the years, allowing us to develop a base of knowledge and a unique understanding of the drilling fluids, oilfield construction and waste disposal markets. We have strengthened our management team by retaining selected key management personnel of the companies we have acquired and by attracting additional experienced personnel.

Business Segments

Fluids Systems and Engineering

Our fluids systems and engineering business offers unique solutions to highly technical drilling projects involving complex subsurface conditions, such as horizontal drilling, geographically deep drilling or deep water drilling. These projects require constant monitoring and critical

Table of Contents

engineering support of the fluids system during the drilling process. We provide drilling fluids products and services to the North American market and in areas of Europe and North Africa adjacent to the Mediterranean Sea.

We own the patent rights to a family of high-performance, water-based products, which we market as the DeepDrill® and FlexDrill systems. These systems include up to eight proprietary performance-enhancing components, each formulated for environmental protection. DeepDrill® and FlexDrill systems can provide improved penetration rates, superior lubricity, torque and drag reduction, shale inhibition, solids management, minimized hole enlargement and enhanced ability to log results and utilize measurement tools. This technology also led to the development of our NewPhase™ product, originally a component of our water-based product line, which we now use to enhance high performance invert emulsion fluid systems tailored to the drilling problems created by the reactive shale strata encountered in the Mid-Continent and Rocky Mountain regions.

The service infrastructure that enables us to participate in the drilling fluids market includes our industrial minerals grinding capacity for barite, a critical raw material for drilling fluids operations. We grind barite and other industrial minerals at facilities in Channelview and Corpus Christi, Texas, New Iberia and Morgan City, Louisiana, and Dyersburg, Tennessee. We also have a contract grinding agreement under which a contract mill in Brownsville, Texas, grinds raw barite supplied by us for a fixed fee. We use the resulting products in our drilling fluids business and we sell them to industrial users. We also sell a variety of other minerals, principally to industrial markets, from our main plant in Channelview, Texas, and from the plant in Dyersburg, Tennessee.

Mat and Integrated Services

We provide mats to the oil and gas industry to ensure all-weather access to E&P sites in the unstable soil conditions common along the onshore Gulf of Mexico and Western Canada. We use both an interlocking wooden mat system and the Dura-Base™ composite mat system. We also install access roads and temporary work sites for pipeline, electrical utility and highway construction projects where soil protection is required by environmental regulations or to assure productivity in unstable soil conditions. We have supplied mats for temporary use in non-oilfield projects nationwide and are working to broaden the customer base and expand this aspect of our business.

Since 1988, we have used a patented prefabricated interlocking wooden mat system for constructing drilling and work sites, which replaced the labor-intensive individual hardwood boards used for that purpose. In 1994, we began looking for other products that could substitute for wood in the mats. In 1997, we formed a joint venture to manufacture our Dura-Base™ composite mat, which is lighter, stronger and more durable than the wooden mats then in use. The manufacturing facility was completed in the third quarter of 1998 and immediately began producing the new composite mats. In May 2003, production was suspended due to our high inventory level and low third party sales volume resulting from weak market conditions. In 2005, we completed the acquisition of the third-party ownership in the manufacturing facility and consolidated all our composite mat manufacturing and sales activity into a new operating company, Composite Mat Solutions, LLC. We believe that this specialized and focused organization, which holds a number of patents, will provide improved financial performance from the investment that we have made to date in this product line.

We continue to develop the worldwide market for our Dura-Base composite mat system. Our marketing efforts for this product remain focused in eight principal oil and gas industry markets: Canada, Alaska and the Arctic, Russia, the Middle East, South America, Mexico, Indonesia and the U.S. utilities markets. We believe these mats have worldwide applications outside our traditional oilfield market, primarily in infrastructure construction, particularly for maintenance and upgrades of electric utility transmission lines, and as temporary roads for movement of oversized or unusually heavy loads.

Table of Contents

In addition, we continue marketing the Bravo™ mat system, a unit that weighs approximately 50 pounds and can be installed readily by an individual without the need for mechanical assistance. This mat system has been designed specifically for personnel applications, including exits, temporary event surfaces, walkways, tent flooring and similar applications that call for a lightweight, readily moveable product.

As increasingly stringent environmental regulations affecting drilling and production sites are promulgated and enforced, the scope of services required by oil and gas companies has increased. Often it is more efficient for site operators to contract with a single company that can provide all-weather site access and provide the required onsite and offsite environmental services on a fully integrated basis. We provide a comprehensive range of services necessary for our customers' oil and gas E&P activities. These services include:

site assessment;

oilfield construction services, including hooking-up and connecting wells, installing production equipment and maintaining the production site and facilities during the life of the well;

waste pit design, construction and installation;

regulatory compliance assistance; and

site remediation and closure.

Environmental Services

We process and dispose of E&P waste generated by our customers. We operate seven receiving and transfer facilities located along the U.S. Gulf Coast, from Venice, Louisiana, to Corpus Christi, Texas. E&P waste is collected at the transfer facilities from drilling and production operations located offshore, onshore and within inland waters. A fleet of 48 double-skinned barges certified by the U.S. Coast Guard to transport E&P waste supports these facilities. Waste is accumulated at the transfer facilities and moved by barge through the Gulf Intracoastal Waterway to our processing and transfer facility at Port Arthur, Texas, and if not recycled, is trucked to injection disposal facilities.

We recycle the wash water we use in our cleaning processes at our transfer facilities, which reduces the total number of waste barrels we dispose of and, therefore, reduces the volume of waste for which our customers are responsible. We also recycle a portion of the material received and deliver it to municipal landfill facilities for application as a commercial product. The remaining material is injected, after further processing, into environmentally secure geologic formations, effecting a permanent isolation of the material from the environment.

Since 1993, we have developed and used proprietary technology to dispose of E&P waste by low-pressure injection into unique geologic structures deep underground. In December 1996, we were issued patents covering our waste processing and injection operations. Our injection technology is distinguished from conventional methods in that it utilizes very low pressure, typically less than 100 pounds per square inch (psi), to move the waste into the injection zone. Under a permit from the Texas Railroad Commission, we currently operate a 50-acre injection well facility in the Big Hill Field and a facility at a 400-acre site near Fannett, both located in Jefferson County, Texas. The Fannett site was placed in service in September 1995 and is our primary facility for disposing of E&P waste. We subsequently acquired several additional injection disposal sites and now have an inventory of approximately 1,250 acres of injection disposal property in Texas and Louisiana. We receive non-hazardous industrial waste principally from generators in the U.S. Gulf Coast market, including refiners, manufacturers, service companies and municipalities that produce waste that is not regulated under The Resource Conservation and Recovery Act. These non-hazardous waste streams are injected into a separate well utilizing the same low-pressure injection technology.

Since 1994, we have been licensed to process E&P waste contaminated with naturally occurring radioactive material, or NORM. (For more information on NORM, please refer to the

Table of Contents

discussion under Environmental Regulation beginning on page 15.) We currently operate under a license that authorizes us to inject NORM directly into dedicated disposal wells at our Big Hill, Texas, facility.

We also provide environmental services to the drilling and production industry in Canada. Primary revenue sources include on-shore drilling waste management as well as reclamation services. Much of the knowledge base associated with these Canadian services can be transferred to other markets within and outside of North America.

Raw Materials

We believe that our sources of supply for materials and equipment used in our drilling fluids business are adequate for our needs. We are not dependent upon any one supplier. Our specialty milling company is our primary supplier of barite used in our drilling fluids business. We also obtain barite from third-party mills under contract grinding arrangements. The mills obtain raw barite ore under supply agreements from foreign sources, primarily China and India. We obtain other materials used in the drilling fluids from various third party suppliers. We have encountered no serious shortages or delays in obtaining any raw materials.

The resins, chemicals and other materials used to manufacture composite mats are widely available.

We acquire the majority of our hardwood needs in our mat business from our own sawmill. We obtain the hardwood logs from loggers who operate close to the mill. Logging generally is conducted during the drier weather months of July through November. During this period, inventory at the sawmill increases significantly for use throughout the remainder of the year. The availability of wooden mats from our supplier is more than adequate to meet our needs.

Patents, Licenses and Proprietary Technology

We seek patents and licenses on new developments whenever feasible. In our drilling fluids business, we have obtained patents on several of the components utilized in our DeepDrill® and FlexDrill fluids systems and own the patent on the primary components and some related products. In our mat business, we also have obtained the patents to fabricate our composite mats. On December 31, 1996, we were granted a U.S. patent on our E&P waste and NORM waste processing and injection disposal system. The patent expires in 2013.

Using proprietary technology and systems is an important aspect of our business strategy. For example, we rely on a variety of unpatented proprietary technologies and know-how in many of our businesses. We believe that our reputation in our industry, the range of services we offer, ongoing technical development and know-how, responsiveness to customers and understanding of regulatory requirements are of equal or greater competitive significance than our existing proprietary rights.

Customers

Our customers are principally major and independent oil and gas E&P companies operating in the markets that we serve. During the year ended December 31, 2005, approximately 39% of our revenues were derived from 20 major customers. No one customer accounted for more than 10% of our consolidated revenues. Typically, we perform services either under short-term standard contracts or under longer term service agreements. As most agreements with our customers are cancelable upon short notice, our backlog is not significant.

We do not derive a significant portion of our revenues from government contracts.

Table of Contents

Competition

We operate in several businesses where our customers have special requirements. We are a leading provider of services in these niche markets because of our distinctive offerings. In the fluids systems and engineering business, we face competition from larger public companies that compete vigorously on fluid performance and/or price. We also find smaller regional competitors competing with us mainly on price and local relationships. The markets for our mat and integrated services business are fragmented and competitive, with five or six small competitors providing various forms of wooden mat products and services. No competitors provide a product similar to our composite mat system. In our E&P waste business, we often compete with our major customers, who continually re-evaluate the decision to use internal disposal methods or a third-party disposal company, such as us. We also compete in this business with several small, independent companies who generally serve specific geographic markets.

We believe that the principal competitive factors in our businesses are price, reputation, technical proficiency, reliability, quality, breadth of services offered and managerial experience. We believe that we compete effectively on the basis of these factors. We also believe that our competitive position benefits from our proprietary products and services. We believe our ability to provide a number of services as part of a comprehensive program enables us to price our services competitively.

Employees

At January 31, 2006, we employed 1,732 full and part-time personnel, none of which are represented by unions. We consider our relations with our employees to be satisfactory.

Environmental Regulation

We seek to comply with all applicable regulatory requirements concerning environmental quality. We deal primarily with E&P waste, NORM, E&P waste containing NORM and nonhazardous industrial waste in our waste disposal business. These wastes are generally described as follows:

E&P Waste. E&P waste typically contains levels of oil and grease, salts, dissolved solids and heavy metals exceeding concentration limits defined by state regulations. E&P waste also includes soils that have become contaminated by these materials.

NORM. Naturally occurring radioactive material, or NORM, is present throughout the earth's crust at very low levels. Radium can co-precipitate with scale out of the production stream as it is drawn to the surface and encounters a pressure or temperature change in the well tubing or production equipment, forming a rust-like scale. This scale contains radioactive elements that can become concentrated on tank bottoms or at water discharge points at production facilities.

Nonhazardous Industrial Waste. This category of waste is generated by industries not associated with the exploration or production of oil and gas. This includes refineries and petrochemical plants.

Our business is affected both directly and indirectly by governmental regulations relating to the oil and gas industry in general, as well as environmental, health and safety regulations that have specific application to our business. We also handle, process and dispose of nonhazardous regulated materials that are not generated from oil and gas activities. Our activities are impacted by various federal, state and provincial pollution control, health and safety programs that are administered and enforced by regulatory agencies, including, without limitation, the U.S. Environmental Protection Agency (EPA), the U.S. Coast Guard, the U.S. Army Corps of Engineers, the U.S. Department of Transportation, the U.S. Occupational Safety and Health Administration,

Table of Contents

the Texas Commission on Environmental Quality, the Texas Department of Health, the Texas Railroad Commission, the Louisiana Department of Environmental Quality, the Louisiana Department of Natural Resources, the Wyoming Department of Environmental Quality, the Wyoming Oil & Gas Conservation Commission, the Oklahoma Corporation Commission, the Oklahoma Department of Environmental Quality, the Mississippi State Oil & Gas Board, the Mississippi State Department of Health, the Mississippi Department of Environmental Quality, Environment Canada, the Alberta Energy and Utilities Board, and the Canada-Nova Scotia Offshore Petroleum Board. These programs are applicable or potentially applicable to our current operations.

Risk Management and Insurance

Our business exposes us to substantial risks. For example, our environmental services business routinely handles, stores and disposes of nonhazardous regulated materials and waste. We could be held liable for improper cleanup and disposal, which liability could be based upon statute, negligence, strict liability, contract or otherwise. As is common in the oil and gas industry, we often are required to indemnify our customers or other third-parties against certain risks related to the services we perform, including damages stemming from environmental contamination.

We have implemented various procedures designed to ensure compliance with applicable regulations and reduce the risk of damage or loss. These include specified handling procedures and guidelines for regulated waste, ongoing employee training and monitoring and maintaining insurance coverage.

We also employ a corporate-wide web-based environmental management system. This system is ISO14001 compliant. These standards provide guidance for developing environmental management systems, referred to as EMS. EMS is composed of modules designed to capture information related to the planning, decision-making, and general operations of environmental regulatory activities within our operations. We also use EMS to capture the information generated by regularly scheduled independent audits that are done to validate the findings of our internal monitoring and auditing procedures.

We carry a range of insurance coverage that we consider adequate for protecting our assets and operations. This coverage includes general liability, comprehensive property damage, workers compensation, business interruption and other coverage customary in our industries; however, this insurance is subject to coverage limits, and certain policies exclude coverage for damages resulting from environmental contamination. We could be materially adversely affected by a claim that is not covered or only partially covered by insurance. We have no assurance that insurance will continue to be available to us, that the possible types of liabilities that may be incurred will be covered by our insurance, that our insurance carriers will meet their obligations or that the dollar amount of any liability will not exceed our policy limits.

ITEM 1A. Risk Factors

Please note that the Explanatory Note included in this filing as well as Note T, Subsequent Events, included in Item 8 of this filing contain information and disclosures which provide updates and modifications to the risk factors described below.

We derive a significant portion of our revenues from companies in the oil and gas exploration and production (E&P) industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility of oil and gas prices.

Prices for oil and natural gas are volatile, and this volatility affects the demand for our services. A material decline in oil or natural gas prices or activities could materially affect the demand for our services and, therefore, our results of operations and financial condition. We may be impacted by changes in oil and gas supply and demand, which are generally affected by the following factors:

oil and gas prices;

expectations about future prices;

the cost to explore for, produce and deliver oil and gas;

Table of Contents

the discovery rate for new oil and gas reserves;

the ability of oil and gas companies to raise capital;

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

government regulations regarding, among other things, environmental protection, taxation, price controls and product allocation.

The potential fluctuations in the level of future oil and gas industry activity or demand for our services and products are difficult, if not impossible, to predict. There may be times when oil and gas industry activity or demand for our services may be less than expected.

We derive a significant portion of our revenues from a limited number of significant customers. A loss of these customers could have an adverse effect on our future performance.

Our customers are principally major and independent oil and gas E&P companies operating in the markets that we serve. During the year ended December 31, 2005, approximately 39% of our revenues were derived from 20 major customers. The loss of any of these customers could negatively impact our results of operations.

Our operating results have fluctuated during recent years, and these fluctuations may continue, which may have an adverse effect on the market price of our common stock.

We have experienced in the past, and may continue to experience in the future, fluctuations in our yearly and quarterly operating results. It is possible that we will not realize expected earnings growth and that earnings in any particular year or quarter will fall short of either a prior fiscal year or quarter or investors' expectations. If this were to occur, the market price of our common stock would likely be adversely affected. The following factors, in addition to others not listed, may affect our operating results in the future:

fluctuations in the oil and gas industry;

competition;

the ability to manage and control our operating costs;

the rate and extent of acceptance of our new drilling fluids products and our new composite mats;

our ability to efficiently integrate and operate businesses that we have recently acquired; and

the ability to identify strategic acquisitions at reasonable prices.

Table of Contents

We employ borrowed funds as an integral part of our long-term capital structure. In an adverse industry cycle, we may not have sufficient cash flow from operations to meet our debt service requirements.

As of December 31, 2005, we had approximately \$185.9 million of long-term debt, and the current portion of our long-term debt was \$12.7 million. In addition, as of this date we had \$10.9 million of short-term foreign bank lines of credit outstanding. There is a risk that we may be unable to obtain sufficient cash flow from operations or obtain other financing in the future to repay this debt. For the year ended December 31, 2005, we had total interest expense of approximately \$16.2 million. Our ability to meet our debt service requirements and comply with the covenants in our various debt agreements, including the indenture governing our senior subordinated notes, will depend on our future performance. This, in turn, is subject to the volatile nature of the oil and gas industry, and to competitive, economic, financial and other factors that are beyond our control. If we are unable to obtain sufficient cash flow from operations or obtain other financing in the future to service our debt, we may be required to sell assets, reduce capital expenditures or refinance all or a portion of our existing debt in order to continue to operate. We may not be able to obtain any additional debt or equity financing if and when needed, and the terms we may be required to offer for this additional debt or equity financing may not be as favorable as the terms we have been able to obtain in the past.

Substantially all of our assets are encumbered to secure our credit facility, and the indenture governing our senior subordinated notes restricts our ability to incur additional debt. In particular, we may not incur additional debt unless the ratio of our net income before income taxes, interest expense and certain non-cash charges for the four preceding fiscal quarters, to our interest expense for the same four quarters, would be at least 2:1. In calculating this ratio, the additional debt is treated as if it had been incurred on the first day of the four quarter period, and several other adjustments required by the indenture are made. The principal exceptions to this restriction include our ability to:

- refinance existing debt without increasing the amount of that debt;

- incur up to \$100,000,000 of debt under our credit facility or a replacement or refinancing of our credit facility;

- issue bonds, letters of credit and similar items in the ordinary course of our business;

- incur capitalized leases and obligations for the purchase of property not exceeding a total of \$20,000,000; and

- have outstanding at any time up to \$25,000,000 of additional debt.

As of December 31, 2005, not including amounts available under our credit facility, the refinance of existing debt and the issuance of bonds, letters of credit and similar items in the ordinary course of business, we could incur over \$200 million of additional debt within the indenture restrictions.

We may not be able to comply with all of the restrictions imposed by the terms of our indebtedness and could be placed in default by our lenders.

Both the indenture governing the terms of our senior subordinated notes and our credit facility contain restrictive covenants with which we may not be able to comply. Our credit facility also requires us to satisfy certain financial tests. If we were to breach these covenants or fail to satisfy these financial tests, all amounts owing, including accrued interest, under both our senior subordinated notes and our credit facility could be declared immediately due and payable. The lenders under the credit facility also could terminate all commitments under the credit facility and enforce their rights to their security interests on substantially all of our assets. In addition, a default under our credit facility could constitute a cross-default under the indenture, and a default under the indenture could constitute a cross-default under our credit facility.

Table of Contents

Our ability to comply with these restrictive covenants and satisfy these financial tests may be affected by events beyond our control. These events include changes in oil and gas E&P levels and industry conditions that affect our financing and capital needs. The indenture includes covenants limiting our ability to:

incur additional debt;

pay dividends and redeem capital stock;

make certain investments;

issue any capital stock of our subsidiaries;

create any liens or other restrictions affecting our subsidiaries;

issue any guarantees;

enter into transactions with any of our affiliates; and

sell assets, merge or consolidate.

Table of Contents

We have high levels of fixed costs that may not be covered if there are any downturns in our business.

Our business has high fixed costs, and downtime or low productivity due to reduced demand, weather interruptions, equipment failures or other causes can result in significant operating losses.

We have high levels of goodwill in relation to our total assets and stockholders' equity as a result of acquisitions. This could have a significant impact on our results of operations and financial condition.

As of December 31, 2005, we had approximately \$116.8 million in costs in excess of net assets of businesses we acquired and identifiable intangible assets of \$12.8 million (restated). Our estimates of the values of these assets could be reduced in the future as a result of various factors beyond our control. Any reduction in the value of these assets would reduce our reported income and reduce our total assets and stockholders' equity in the year in which the reduction is recognized. The \$116.8 million balance of goodwill represents 17.9% (restated) of our total assets and 33.7% (restated) of our total stockholders' equity as of December 31, 2005.

We may not be able to keep pace with the continual and rapid technological developments that characterize the market for our products and services, and our failure to do so may result in our loss of market share.

The market for our products and services is characterized by continual and rapid technological developments that have resulted in, and will likely continue to result in, substantial improvements in product functions and performance. If we are not successful in developing and marketing, on a timely and cost-effective basis, product enhancements or new products that respond to technological developments that are accepted in the marketplace or that comply with industry standards, we could lose market share. In addition, current competitors or new market entrants may develop new technologies, products or standards that could render some of our products or services obsolete, which could have a material adverse effect on our consolidated financial statements. Our future success and profitability are dependent upon our ability to:

improve our existing product lines;

address the increasingly sophisticated needs of our customers;

maintain a reputation for technological leadership;

maintain market acceptance of our products and services; and

anticipate changes in technology and industry standards and respond to technological developments on a timely basis, either internally or through strategic alliances.

Demand for our services may be adversely affected by shortages of critical equipment and personnel trained to operate this equipment in the oil and gas industry.

Shortages of critical equipment and qualified personnel necessary to explore for, produce or deliver oil and gas have on occasion limited the amount of drilling activity in our primary markets. Shortages in these areas could limit the amount of drilling activity and, accordingly, the demand for our services. Such shortages also could limit our ability to expand our services or geographic presence.

If we lose key personnel or are unable to hire additional qualified personnel, we may not be successful.

Our future success depends on our ability to retain our highly-skilled engineers and technical sales and service personnel. The market for these employees is very competitive, and if we cannot continue to attract and retain quality personnel, our ability to compete effectively and to grow our business will be severely limited. Our industry typically requires attractive compensation packages

Table of Contents

to attract and retain qualified personnel. A significant increase in the wages paid by competing employers could result in a reduction in our skilled labor force, increases in the rates of wages we must pay, or both. Our success also depends upon the continuing contributions of our key executive officers. None of our executive officers is covered by a long-term employment contract, and we do not know how long they will remain with our organization. We do not have key man life insurance policies on any of our personnel.

A rescission or relaxation of government regulations could reduce the demand for our services and reduce our revenues and income. Changes in existing regulations also could require us to change the way we do business, which could have a material adverse effect on our results of operations and financial condition.

We believe that the demand for our principal environmental services is directly related to regulation of E&P waste. If these regulations were rescinded or relaxed, or governmental authorities failed to enforce these regulations, we could see a decrease in the demand for our services. This decrease in demand could materially affect our results of operations and financial condition. We also may be affected adversely by new regulations or changes in other applicable regulations.

E&P waste that is not contaminated with NORM is currently exempt from the principal federal statute governing the handling of hazardous waste. In recent years, proposals have been made to rescind this exemption. If the exemption covering this type of E&P waste is repealed or modified, we could be required to alter significantly our method of doing business. We also could be required to change the way we do business if the regulations interpreting the rules regarding the treatment or disposal of E&P waste or NORM waste were changed. If we are required to change the way we do business, it could have a material adverse effect on our results of operations and financial condition.

Our patents or other proprietary technology may not prevent our competitors from developing substantially similar technology, which would reduce any competitive advantages we may have from these patents and proprietary technology.

We hold U.S. and foreign patents for certain of our drilling fluids components and mat systems. We also hold U.S. patents on certain aspects of our system to process and dispose of E&P waste, including E&P waste that is contaminated with NORM. However, these patents are not a guarantee that we will have a meaningful advantage over our competitors, and there is a risk that others may develop systems that are substantially equivalent to those covered by our patents. If that were to happen, we would face increased competition from both a service and a pricing standpoint. In addition, costly and time-consuming litigation could be necessary to enforce and determine the scope of our patents and proprietary rights. Our business could be negatively impacted by future technological change and innovation. It is possible that future innovation could change the way companies drill for oil and gas, reduce the amount of waste that is generated from drilling activities or create new methods of disposal or new types of drilling fluids. This could reduce the competitive advantages we may derive from our patents and other proprietary technology.

We depend on the continued participation and cooperation of the Mexican group that controls the patented and proprietary water treatment technology.

We are currently working with the Mexican Group under a Memorandum of Understanding that contemplates that they will enter into an exclusive license agreement with us for the application of this technology to the treatment of waste water in the United States and Canada. If we are unable to reach a final agreement for exclusive use of this technology or a satisfactory alternative arrangement, we could lose the ability to use the technology, which could have a material adverse effect on our results of operations and our water treatment business. Through December 31, 2005, we had invested \$13.8 million in property, plant and equipment and other assets related to this business.

Table of Contents

We face intense competition in our existing markets and expect to face tough competition in any markets into which we seek to expand. This will put pressure on our ability to maintain our current market share and may limit our ability to expand our market share or enter into new markets.

We expect that competition in the E&P waste market will increase as the industry continues to develop, which could put downward pressure on our margins or make it more difficult for us to maintain or expand our market share. In the meantime, we would expect to encounter significant competition if we try to expand into new geographic areas or if we introduce new services. Barriers to entry by competitors in the environmental and oilfield services industries are low. Therefore, competitive products and services have been and may be developed and marketed successfully by others. We also face competition from efforts by oil and gas producing customers to improve their own methods of disposal. By doing so, they can reduce or eliminate the need to use third party E&P waste disposal companies like us.

Our ability to expand our business or increase prices also will be affected by future technological change and innovation, which could affect our customers' decisions to use their own methods of disposal. We also face competition in the drilling fluids market, where there are several companies larger than us that may have both lower capital costs and greater geographic coverage. Numerous smaller companies also compete against us in the drilling fluids market. These companies may have a lower total cost structure.

We must comply with numerous federal, state and local laws, regulations and policies that govern environmental protection, zoning and other matters applicable to our business. If we fail to comply or these regulations and policies change, we may face fines or other penalties or be forced to make significant capital expenditures or changes to our operations.

Laws and regulations have changed frequently in the past, and it is reasonable to expect additional changes in the future. If regulatory requirements change, we may be required to make significant unanticipated capital and operating expenditures to remain compliant. If our operations do not comply with future laws and regulations, governmental authorities may seek to impose fines and penalties on us or to revoke or deny the issuance or renewal of operating permits for failure to comply with applicable laws and regulations. Under these circumstances, we might be required to reduce or cease operations or conduct site remediation or other corrective action. Any of these results could have a material adverse effect on our results of operations and financial condition.

Our business exposes us to potential environmental or regulatory liability, and we could be required to pay substantial amounts with respect to these liabilities, including costs to clean up and close contaminated sites.

Our business exposes us to the risk that harmful substances may escape into the environment, which could result in:

personal injury or loss of life;

severe damage to or destruction of property; and

environmental damage and suspension of operations.

Our current and past activities, as well as the activities of our former divisions and subsidiaries, could result in our facing substantial environmental, regulatory and other liabilities. This could include the costs of cleanup of contaminated sites and site closure obligations. These liabilities also could be imposed on the basis of one or more of the following theories:

negligence;

strict liability;

Table of Contents

breach of contract with customers; and

our contractual agreements to indemnify our customers in the normal course of our business.

We may not have adequate insurance for potential liabilities, and any significant liability not covered by insurance or in excess of our coverage limits could have a material adverse effect on our financial condition.

While we maintain liability insurance, this insurance is subject to coverage limits. In addition, certain policies do not provide coverage for damages resulting from environmental contamination. We face the following risks with respect to our insurance coverage:

we may not be able to continue to obtain insurance on commercially reasonable terms or at all;

we may be faced with types of liabilities that will not be covered by our insurance;

our insurance carriers may not be able to meet their obligations under the policies; and

the dollar amount of any liabilities may exceed our policy limits.

Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on our consolidated financial statements.

We are subject to risks associated with our international operations which could limit our ability to expand internationally or reduce the revenues and profitability of these operations.

We have significant operations in Canada and areas of Europe and North Africa surrounding the Mediterranean Sea. In addition, we may seek to expand to other areas outside the United States in the future. International operations are subject to a number of risks and uncertainties, including:

difficulties and cost associated with complying with a wide variety of complex foreign laws, treaties and regulations;

unexpected changes in regulatory environments;

legal uncertainties, timing delays and expenses associated with tariffs, export licenses and other trade barriers;

difficulties enforcing agreements and collecting receivables through foreign legal systems;

tax rates in foreign countries that may exceed those of the United States and foreign earnings that may be subject to withholding requirements, tariffs or other restrictions;

changes in international tax laws;

exchange controls or other limitations on international currency movements;

limitations by the U.S. government to prevent us from engaging in business in certain countries;

difficulties entering new foreign markets if there is a significant movement of E&P operations to areas of the world where we currently do not operate;

inability to preserve certain intellectual property rights in the foreign countries in which we operate;

fluctuations in foreign currency exchange rates; and

political and economic instability.

Our success will depend, in part, on our ability to anticipate and effectively manage these and other risks. Any of these factors could impair our ability to expand into international markets and could prevent us from increasing our revenue and our profitability and meeting our growth objectives.

Table of Contents

The market price of our common stock is subject to fluctuation, and investors may not be able to predict the timing or extent of these fluctuations.

The market price of our common stock may fluctuate depending on a number of factors. These include the general economy, stock market conditions, general trends in the oilfield service industry, announcements made by us or our competitors and variations in our operating results. Investors may not be able to predict the timing or extent of these fluctuations.

Our internal controls may not be sufficient to achieve all stated goals and objectives.

Our internal controls and procedures were developed through a process in which our management applied its judgment in assessing the cost-benefit relationship of possible controls and procedures, which, by their nature, can provide only reasonable assurance regarding control objectives. You should note that the design of any system of internal controls and procedures is based in part upon various assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

ITEM 1B. Unresolved Staff Comments

None

ITEM 2. Properties

We lease our corporate offices in Metairie, Louisiana, consisting of approximately 7,800 square feet, at an annual rental of approximately \$173,000. The lease for this space expires in December 2008.

We lease an office building in Lafayette, Louisiana, consisting of approximately 35,000 square feet, at an annual rental of approximately \$381,000; the lease expires in November 2017. This building houses the administrative offices of our environmental services and mat and integrated services segments.

We lease approximately 53,000 square feet of office space in Houston, Texas, which houses the administrative offices of our fluids systems and engineering segment and regional sales offices for our environmental services and mat sales and rental segments. The lease has an annual rent of approximately \$1.2 million and expires in October 2009.

We lease approximately 25,000 square feet of office space in Calgary, Alberta, which houses the administrative offices of our Canadian operations. The underlying leases have annual rents totaling approximately \$587,000 and expire in October 2007.

We lease approximately 5,500 square feet of office space in Rome, Italy, which houses the administrative offices of our Mediterranean operations. The lease has an annual rent of approximately \$131,000 and expires in October 2010. We also lease three warehouses throughout the Mediterranean region. Total annual rents under these leases are approximately \$198,000. These leases expire in March 2008.

We own approximately 11,000 square feet of office space in Oklahoma City, Oklahoma, which houses the administrative and sales offices of the Mid-continent operations of our fluids systems and engineering segment. We also own four warehouse facilities in Oklahoma that serve as distribution points for these operations.

We own approximately 44,000 square feet of office and warehouse space on nine acres of land in Vatican, Louisiana, which houses the manufacturing, distribution and administrative facilities of the composite mat manufacturing operations.

Table of Contents

Our Port Arthur, Texas, E&P waste facility, which is used in our environmental services segment, is subject to annual rentals totaling approximately \$500,000 under two separate leases. A total of six acres are under lease. One lease expires in April 2007 and the other in September 2007.

We own two injection disposal sites used in our environmental services segment. These disposal sites are both in Jefferson County, Texas, one on 50 acres and the other on 400 acres. Fifteen wells are currently operational at these sites. In January 1997, we purchased 120 acres adjacent to one of the disposal sites, on which we have constructed a non-hazardous industrial waste injection disposal facility. We also own an additional injection facility, which includes three active injection wells on 37 acres, adjacent to our Big Hill, Texas facility.

In October 1997, we acquired land and facilities in west Texas at Andrews, Big Springs, Plains and Fort Stockton, Texas, at which brine is extracted and sold and E&P waste is disposed in the bedded salt caverns created by the extraction process. A total of 125 acres was acquired in this transaction, which is used in our environmental services segment.

We own 29 acres of land in the Boulder Oilfield Waste Recycling Facility near Boulder, Wyoming, which is used in our disposal activities for the Jonah-Pinedale trend.

We lease a fleet of 48 double-skinned barges used in our environmental services segment under leases with remaining terms of from one to three years. The barges are used to transport waste to processing stations and are certified for this purpose by the U. S. Coast Guard. Annual rentals under the barge leases totaled approximately \$3.9 million during 2005.

We operate four specialty product grinding facilities. The principal grinding facility is located on approximately 18 acres of owned land in Channelview, Texas. The second plant is on 13.7 acres of leased land in New Iberia, Louisiana, with an annual rental rate of approximately \$186,000 under a lease expiring in 2006. The third plant is in Corpus Christi, Texas on 6.0 acres of leased land with annual rental payments of approximately \$36,000 under a lease expiring in 2006. The fourth plant, which has recently been placed in service, is in Dyersburg, Tennessee and is on 13.2 acres of owned land.

In our environmental services segment, we use seven leased transfer facilities located along the Gulf Coast, at an annual total rental of \$1.6 million. These leases have various expiration dates through 2008. In our fluids systems and engineering segment, we serve customers from ten leased bases located along the Gulf Coast, at an annual total rental rate of approximately \$1.8 million. These leases also have various expiration dates through 2009.

We own 80 acres occupied as a sawmill facility near Batson, Texas, which is used in our mat and integrated services segment.

ITEM 3. Legal Proceedings

We are involved in litigation and other claims or assessments on matters arising in the normal course of our business. We believe any recovery or liability in these matters should not have a material effect on our consolidated financial position, results of operations or cash flows.

We have been given notice of several lawsuits subsequent to December 31, 2005 as further described in Note T included in Item 8.

Environmental Proceedings

In the ordinary course of conducting our business, we become involved in judicial and administrative proceedings involving governmental authorities at the federal, state and local levels, as well as private party actions. Pending proceedings that allege liability related to environmental matters are described below. We believe that none of these matters involves material exposure. We cannot assure you, however, that this exposure does not exist or will not arise in other matters relating to our past or present operations.

Table of Contents

We continue to be involved in the voluntary cleanup associated with the DSI sites in southern Mississippi. This includes three facilities known as Clay Point, Lee Street and Woolmarket. The Mississippi Department of Environmental Quality (MDEQ) is overseeing the cleanup. The DSI Technical Group that represents the potentially responsible parties, including us, awarded us a contract to perform the remediation work at the three sites. The cleanup of Clay Point and Lee Street has been completed. We believe that payments previously made into an escrow account by all potentially responsible parties are sufficient to cover any remaining costs of cleanup at the Woolmarket site. We anticipate that the Woolmarket cleanup will be completed in 2006 following recent approval of the closure plan by the MDEQ.

Recourse against our insurers under general liability insurance policies for reimbursement in the actions described above is uncertain as a result of conflicting court decisions in similar cases. In addition, certain insurance policies under which coverage may be afforded contain self-insurance levels that may exceed our ultimate liability.

We believe that any liability incurred in the matters described above will not have a material adverse effect on our consolidated financial statements.

ITEM 4. Submission of Matters to a Vote of Shareholders

None.

PART II**ITEM 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities**

Our common stock is traded on the New York Stock Exchange under the symbol NR.

The following table sets forth the range of the high and low sales prices for our common stock for the periods indicated:

	Period	High	Low
2005			
	4 th Quarter	\$8.54	\$6.85
	3 rd Quarter	\$8.99	\$7.26
	2 nd Quarter	\$7.64	\$5.65
	1 st Quarter	\$6.65	\$4.72
2004			
	4 th Quarter	\$6.35	\$4.88
	3 rd Quarter	\$6.80	\$5.21
	2 nd Quarter	\$6.22	\$5.03
	1 st Quarter	\$5.86	\$4.11

At March 6, 2006, we had 2,490 stockholders of record as determined by our transfer agent.

Our Board of Directors currently intends to retain earnings for use in our business, and we do not intend to pay any cash dividends in the foreseeable future. In addition, our credit facility and the indenture relating to our outstanding Senior Subordinated Notes contain covenants which significantly limit the payment of dividends on our common stock.

During the year ended December 31, 2005, there were no sales of our securities by us which were not registered under the Securities Act of 1933, as amended.

Table of Contents

During the quarter ended December 31, 2005, there were no repurchases by us or any affiliated purchaser of any of our common stock.

ITEM 6. Selected Financial Data

The selected consolidated historical financial data presented below for the five years ended December 31, 2005, are derived from our consolidated financial statements and have been restated to reflect adjustments to periods 2001 through 2005 that are further discussed in Note A, Restatement of Historical Financial Statements, to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. The following data should be read in conjunction with such consolidated financial statements and notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below.

27

Table of Contents

	Years Ended December 31,				
	2005	2004	2003	2002⁽²⁾	2001
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
	(1)	(1)	(1)	(1)	(1)
	<i>(In Thousands, Except Per Share Data)</i>				
Consolidated Statements of Income:					
Revenues	\$555,018	\$433,422	\$372,260	\$317,860	\$408,605
Cost of revenues	495,063	398,167	347,382	298,295	336,595
	59,955	35,255	24,878	19,565	72,010
General and administrative expenses	9,545	9,394	5,813	5,394	5,267
Provision for uncollectible accounts	843	800	1,000		
Impairment losses		3,399	350		
Goodwill amortization					4,861
Operating income	49,567	21,662	17,715	14,171	61,882
Foreign currency exchange (gain) loss	(521)	(301)	(831)	(170)	359
Interest and other income	(158)	(1,345)	(633)	(741)	(1,378)
Interest expense	16,155	14,797	15,251	12,286	15,438
Income before income taxes	34,091	8,511	3,928	2,796	47,463
Provision for income taxes	11,310	3,014	2,284	1,360	17,131
Net income ⁽³⁾	\$ 22,781	\$ 5,497	\$ 1,644	\$ 1,436	\$ 30,332
Less:					
Preferred stock dividends and accretion	509	938	1,583	3,071	3,900
Other noncash preferred stock charges				1,037	
Net income (loss) applicable to common and common equivalent shares	\$ 22,272	\$ 4,559	\$ 61	\$ (2,672)	\$ 26,432
Net income (loss) per common and common equivalent shares:					
Basic	\$ 0.26	\$ 0.05	\$ 0.00	\$ (0.04)	\$ 0.38
Diluted ⁽⁴⁾	\$ 0.26	\$ 0.05	\$ 0.00	\$ (0.04)	\$ 0.33
Consolidated Balance Sheet Data (at period end):					
Working capital	\$164,508	\$144,383	\$129,060	\$112,002	\$100,786

Edgar Filing: NEWPARK RESOURCES INC - Form 10-K/A

Total assets	651,294	587,371	572,032	538,827	520,918
Short-term debt	23,586	13,048	13,869	9,879	3,355
Long-term debt	185,933	186,286	183,600	172,049	176,954
Stockholders equity	346,725	319,656	310,083	301,513	292,181

Consolidated Cash Flow Data:

Net cash provided by operations	\$ 29,096	\$ 21,522	\$ 7,552	\$ 11,140	\$ 40,919
Net cash used in investing activities	(33,829)	(14,960)	(22,043)	(17,249)	(27,047)
Net cash provided by (used in) financing activities	6,071	(4,498)	15,632	1,102	(37,613)

28

Table of Contents

	Years Ended December 31,				
	2005	2004	2003	2002⁽²⁾	2001
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
	(1)	(1)	(1)	(1)	(1)
	<i>(In Thousands, Except Per Share Data)</i>				
Pro Forma Disclosures ⁽⁵⁾:					
Net income (loss) applicable to common and common equivalent shares:					
As reported	\$22,272	\$ 4,559	\$ 61	\$ (2,672)	\$26,432
Add goodwill amortization, net of taxes					3,847
As adjusted	\$22,272	\$ 4,559	\$ 61	\$ (2,672)	\$30,279
Basic income (loss) per share:					
As reported	\$ 0.26	\$ 0.05	\$ 0.00	\$ (0.04)	\$ 0.38
Add goodwill amortization, net of taxes					0.05
As adjusted	\$ 0.26	\$ 0.05	\$ 0.00	\$ (0.04)	\$ 0.43
Diluted income (loss) per share:					
As reported	\$ 0.26	\$ 0.05	\$ 0.00	\$ (0.04)	\$ 0.33
Add goodwill amortization, net of taxes					0.05
As adjusted	\$ 0.26	\$ 0.05	\$ 0.00	\$ (0.04)	\$ 0.38
EBITDA ⁽⁶⁾:					
Net income	\$22,781	\$ 5,497	\$ 1,644	\$ 1,436	\$30,332
Less: preferred stock dividends paid in cash	(375)	(675)		(106)	(675)
Add:					
Interest expense	16,155	14,797	15,251	12,286	15,438
Income taxes	11,310	3,014	2,284	1,360	17,131
Stock-based compensation expense	741	587	1,096	2,030	3,341
Depreciation and amortization	24,481	19,755	20,425	20,800	26,354
EBITDA	\$75,093	\$42,975	\$40,700	\$37,806	\$91,921

(1) See Note A,
Restatement of
Historical

Financial Statements, to the accompanying consolidated financial statements for a discussion of the restatement.

- (2) Fiscal year 2002 includes the effects of the acquisition of AVA S.p.A., which was accounted for by the purchase method of accounting. The results for AVA since the May 2002 acquisition date are included in the results for the fluids systems and engineering segment.
- (3) The impact of the restatement on net income (in thousands) for the year ended December 31, was as follows:

	2005	2004	2003	2002	2001
As previously reported	\$22,139	\$4,956	\$2,077	\$ 4,621	\$31,906
Effects of restatement	642	541	(433)	(3,185)	(1,574)
As restated	\$22,781	\$5,497	\$1,644	\$ 1,436	\$30,332

Table of Contents

- (4) The impact of the restatement on diluted income per common and common equivalent shares for the year ended December 31 was as follows:

	2005	2004	2003	2002	2001
As previously reported	\$0.25	\$0.05	\$ 0.01	\$ 0.01	\$ 0.37
Effects of restatement	0.01	0.00	(0.01)	(0.05)	(0.04)
As restated	\$0.26	\$0.05	\$ 0.00	\$(0.04)	\$ 0.33

- (5) On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (FAS 142). FAS 142, among other requirements, provides that goodwill not be amortized in any circumstance. This table reconciles our net income and earnings per share as reported to the amounts that would have been reported had FAS 142 been adopted as of January 1, 2001.
- (6) Earnings before interest, taxes, depreciation and amortization (EBITDA) is considered by management to be an important financial performance measure since it is used by some of our investors, particularly those who invest in our Senior Subordinated Notes. This table reflects the calculation of EBITDA. Calculations of EBITDA should not be viewed as a substitute for calculations under generally accepted accounting principles, including cash flows from operations, operating income, income from continuing operations and net income. In addition, EBITDA calculations by one company may not be comparable to EBITDA calculations made by another company.

Table of Contents**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of our financial condition, results of operations, liquidity and capital resources should be read together with our Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report.

Restatement of Previously Issued Financial Statements

As discussed more fully in Note A, Restatement of Historical Financial Statements, in Item 8 of this Form 10-K/A, we have restated our previously issued consolidated financial statements for years 2001 through 2005. This discussion and analysis should be read in conjunction with the restated consolidated financial statements and notes appearing in Item 8 of this Form 10-K/A.

Operating Environment and Recent Developments

Our operating results depend in large measure on oil and gas drilling activity levels in the markets we serve, as well as on the depth of drilling, which governs the revenue potential of each well. Most of these activities are exposed to weather conditions in each region. The activity levels, in turn, depend on oil and gas commodities pricing, inventory levels and product demand. Rig count data is the most widely accepted indicator of drilling activity. Key average rig count data for the last five years ended December 31 is listed in the following table:

	2005	2004	2003	2002	2001
U.S. Rig Count	1,383	1,190	1,032	830	1,156
Canadian Rig Count	455	369	372	263	351

Source: Baker Hughes Incorporated

Our markets include: (1) the historical Gulf Coast market; (2) the U.S. central region (including the U.S. Rocky Mountain region, Oklahoma and West Texas); (3) Canada; (4) areas surrounding the Mediterranean Sea and Eastern Europe; and (5) Mexico.

Key Developments

Our historical Gulf Coast oilfield market includes: (1) South Louisiana Land; (2) Texas Railroad Commission Districts 2 and 3; (3) Louisiana and Texas Inland Waters; and (4) Offshore Gulf of Mexico. This market accounted for approximately 48% of 2005 revenues and 50% of 2004 revenues. Prior to 1998, the Gulf Coast oilfield market accounted for 97% of total revenues. The overall decline in the percentage of Gulf Coast revenues over the last several years is the result of our strategy to diversify our revenue base and relatively flat Gulf Coast market activity.

The recent increase in intense hurricane activity in the Gulf of Mexico had a significant impact on Gulf Coast revenues in the third and fourth quarters of 2005 and, to a lesser extent, in the third quarter of 2004. In the third quarter of 2005, all of our Gulf Coast operations were impacted by severe weather and several of our drilling systems and engineering and environmental services facilities sustained significant damage as a result of Hurricanes Katrina and Rita. These facilities were primarily located in Venice and Cameron, Louisiana. All facilities were capable of operating as of December 31, 2005. We anticipate that we will see more activity in the offshore market in the first quarter of 2006 as customers return to more normal operating patterns.

As a result of Hurricanes Katrina and Rita, in 2005 we recorded losses totaling \$7.9 million, including losses related to property, plant and equipment damages totaling \$4.0 million, inventory losses totaling \$1.4 million and additional costs as a direct result of the storms totaling \$2.5 million. We recorded these losses as additions to cost of revenues. As of December 31, 2005, based on

Table of Contents

agreements with our insurers as to our insurance coverage, we recorded insurance recoveries totaling \$9.4 million, including \$4.8 million for property, plant and equipment, \$2.5 million related to additional costs as a direct result of the storms and \$2.1 million for business interruption, net of a \$100,000 insurance deductible per occurrence. We also recorded these insurance recoveries as reductions to cost of revenues. The net effect of these losses and related recoveries is operating income of \$1.5 million. We have received these insurance proceeds and have used a portion to cover expenses incurred due to the hurricanes and to replace some damaged property, plant and equipment. We have used the remaining amount to pay down debt.

Absent the recent effects of Hurricanes Katrina and Rita, we had experienced an increase in Gulf Coast oilfield market activity since the beginning of 2005. However, we continue to believe that the majority of our growth will come from other markets and new product offerings in the markets we serve.

Recent Product and Other Developments

Over the last several years we have developed several new products and product enhancements in each of our business segments. We have invested a significant amount of financial and human resources in developing these new products. A large portion of these investments in product developments and enhancements have been made during an extended period of market stagnation or decline, primarily in the Gulf Coast market. We believe that these investments will be a key driver in our anticipated growth in 2006.

Fluids Systems and Engineering. We continue to develop a position in the drilling fluids market by expanding our customer base, drawing upon increasing acceptance of our proprietary DeepDrill® and FlexDrill technologies. We also have deployed our NewPhase™ product, originally a component of our water-based product line, which we now use to enhance high performance invert emulsion fluid systems tailored to the drilling problems created by the reactive shale strata encountered in the Mid-Continent and Rocky Mountain regions. We believe that certain of these new products improve the economics of the drilling process and will make it easier for our customers to comply with increasingly strict environmental regulations affecting their drilling operations. Based on customer acceptance of our technology and service capability, we anticipate introducing these products and services in other foreign markets. We recently announced the execution of a memorandum of understanding to form a new company that will provide drilling fluids products and services in Brazil, in partnership with a well-established Brazilian company.

During 2004, our product costs increased across most of the U.S. markets that we serve. Specifically, in the second half of 2004, the ocean freight cost to ship barite from our foreign suppliers increased significantly. In 2005, raw material, personnel and fuel costs have risen significantly. These cost increases have been partially offset by price increases to our customers during 2005. We are continuing to increase prices to our customers to keep pace with cost increases as contracts are negotiated or renewed.

Mat and Integrated Services. During 2005, pricing for mat installation and re-rentals in the U.S. oilfield market improved slightly. We believe that prices should continue to improve and expect some increase in volume of mats installed beginning in 2006 as funds are allocated to new drilling projects.

We continue to develop the worldwide market for our Dura-Base composite mat system. Our marketing efforts for this product remain focused in eight principal markets, including Canada, Alaska and the Arctic, Russia, the Middle East, South America, Mexico, Indonesia, and the United States.

Over the past several years of marketing this product and evaluating customer acceptance, we have gained valuable information and have modified our marketing and product development strategies accordingly. These strategies include the development of several markets outside our

Table of Contents

traditional oilfield market. These new markets include infrastructure construction applications, particularly for maintenance and upgrades of electric utility transmission lines in response to increasing demand for electricity in many parts of the country, and for other infrastructure construction applications and temporary roads for movement of oversized or unusually heavy loads.

We recently completed the acquisition of the third-party ownership in our Dura-Base mat manufacturing facility and restarted production at that facility in August 2005. We now are implementing several improvements to that product family based on our experience with rental and sales of this product.

Environmental Services. Absent the impact of the major hurricanes in the third quarter of 2005, we had experienced an increase in Gulf Coast market activity, principally associated with the inland barge market. We believe that the damage from the recent hurricanes to the service infrastructure, docks and rig fleet in the Gulf Coast market will negatively impact Environmental Services revenues until all available rigs and related service infrastructure are back in service in 2006.

In early 2005, we announced the formation of Newpark Environmental Water Solutions, LLC (NEWS), through which we have started to commercialize in the United States and Canada the ARMEL Activator technology, a proprietary and patented water treatment technology owned by a Mexican company controlled by one family (the Mexican Group). This new technology employs principles of sonochemistry to remove dissolved solids from wastewater. Since 2003, we have operated under a Memorandum of Understanding with the Mexican Group, which contemplates that we will enter into an exclusive license for the technology and purchase proprietary equipment and services from a company controlled by the Mexican Group and pay to the Mexican Group, or a company it controls, a royalty based on net income from use of the technology. Through December 31, 2005, we had invested \$13.8 million in property, plant and equipment and other assets related to this business.

During the first quarter of 2005, NEWS took delivery of its first water treatment system, which was installed at our Boulder, Wyoming, facility, originally opened in 2003. The facility was intended to service customers in the Jonah and Pinedale fields. During the start-up and testing phase of the operating plan, we produced treated water meeting the discharge requirements of our permit and, as a result we accelerated plans to increase the plant's throughput capacity.

NEWS was also awarded a contract for processing produced water from coal bed methane production near Gillette, Wyoming. We completed a 20,000 barrel per day capacity facility at that location and were testing the facility at December 31, 2005. In addition, two testing and demonstration plants have been transported to the Canadian market and are expected to begin testing in March 2006 in the Fort McMurray Oil Sands market. Subsequent to this time, in August 2006, our management with the approval of the Executive Committee of our Board of Directors made the decision to shut down the operations of NEWS and to dispose or redeploy all of the assets used in connection with its operations. The reasons for this decision included the following:

- § Our conclusion that a satisfactory agreement with the owners of the technology could not be reached;
- § Receipt of a report by outside consultants regarding the water treatment market and the proprietary technology;
- § Difficulty in utilizing the proprietary technology on a consistently reliable basis;
- § Losses incurred by NEWS to date; and
- § The prospect that the business will incur substantial future losses due to the inability to re-negotiate a disposal contract for the Gillette, Wyoming facility and the receipt of waste streams that are more costly to process.

Table of Contents*Other Market Trends*

Current long-term industry analyses forecast difficulty in meeting anticipated growing demand for natural gas. In addition, current gas reserves are being depleted at a rate faster than replacement through current drilling activities. Many shallow fields in the Gulf Coast market have been heavily exploited. Improved economics and technology have increased the interest of producers to drill at greater depths to reach the larger gas reserves. This trend is limited by the availability of rigs of adequate capacity to reach these deeper objectives.

In other areas, including the Mid Continent and the Rockies, deep shales and other hard rock formations of limited permeability are being exploited with advanced fracture stimulation technology that facilitates production of natural gas from these formations.

Current short-term industry forecasts suggest that we could see a slight increase in the number of rigs active in our primary Gulf Coast market, but this increase is expected to develop slowly as customers react to the changing risk profile of the market. The number of rigs active in the offshore and inland water Gulf Coast markets is expected to increase slowly due to a lack of rigs of adequate capability. In addition, a number of rigs were lost in the third-quarter hurricanes. We anticipate continued revenue growth in the markets we serve, driven by market share gains in critical, deep water and geologically deeper wells which generate higher levels of revenue per well.

Results of Operations

Summarized financial information concerning our reportable segments is shown in the following table (dollars in thousands):

	Years ended December 31,			2005 vs. 2004 (Restated)		2004 vs. 2003 (Restated)	
	2005 (Restated)	2004 (Restated)	2003 (Restated)	\$	%	\$	%
Revenues by segment:							
Fluids systems and engineering	\$ 384,208	\$ 272,937	\$ 215,491	\$ 111,271	41%	\$ 57,446	27%
Mat and integrated services	109,525	96,008	87,961	13,517	14	8,047	9
Environmental services	61,285	64,477	68,808	(3,192)	(5)	(4,331)	(6)
Total	\$ 555,018	\$ 433,422	\$ 372,260	\$ 121,596	28	\$ 61,162	16
Segment operating income:							
Fluids systems and engineering	\$ 40,589	\$ 21,524	\$ 11,563	\$ 19,065	89	\$ 9,961	86
Mat and integrated services	13,054	5,618	437	7,436	132	5,181	NM
Environmental services	6,312	8,113	12,878	(1,801)	(22)	(4,765)	(37)
Total segment operating income	59,955	35,255	24,878	24,700	70	10,377	42
General and administrative expenses	9,545	9,394	5,813	151	2	3,581	62
	843	800	1,000	43	5	(200)	(20)

Provision for uncollectible accounts Impairment losses		3,399	350	(3,399)	(100)	3,049	871
Total operating income	\$ 49,567	\$ 21,662	\$ 17,715	\$ 27,905	129%	\$ 3,947	22%

Figures shown above are net of intersegment transfers.

See Note A, Restatement of Historical Financial Statements to the consolidated financial statements for a discussion of the restatement.

NM-Not meaningful

Table of Contents**Year Ended December 31, 2005 Compared to Year Ended December 31, 2004****Fluids Systems and Engineering***Revenues*

Total revenue by region for this segment was as follows for 2005 and 2004 (dollars in millions):

	2005 (Restated)	2004	2005 vs. 2004 (Restated)	
			\$	%
Gulf Coast	\$ 156.6	\$ 108.9	\$ 47.7	44%
U.S. Central	131.6	102.4	29.2	29
Other	23.3	9.1	14.2	156
Total U.S.	311.5	220.4	91.1	41
Canada	32.4	18.5	13.9	75
Mediterranean	40.3	34.0	6.3	19
Total	\$384.2	\$272.9	\$111.3	41

The average number of rigs we serviced in the U.S. market increased by 28%, from 160 in 2004 to 204 in 2005. Our average annual revenue per rig in the U.S. market increased by 12%, from approximately \$1,378,000 in 2004 to approximately \$1,537,000 million in 2005.

Despite the severe level of tropical storm activity affecting the third and fourth quarters of 2005, revenues in our primary Gulf Coast market for 2005 were 44% higher than in the prior year due to a combination of increased market share and improved pricing. In the Gulf Coast market we serviced an average of 86 rigs in 2005, compared to 60 in 2004, an increase of 43%. The average number of rigs operating in this region increased 17%, from 429 rigs for 2004 to 501 for 2005. The difference between the increase in the number of rigs we serviced in this region and the number of rigs active in the region reflects our increased market penetration.

Revenues in the U.S. Central region for 2005 were 29% (restated) higher than in the prior year on higher pricing and increased market share. In the U.S. Central region we serviced an average of 118 rigs in 2005, compared to 101 in 2004, an increase of 17%. The average number of rigs operating in this region increased 12% from 470 rigs in 2004 to 528 in 2005. The difference between the increase in the number of rigs we serviced in this region and the number of rigs active in the region reflects our market penetration.

The other U.S. market for this segment is principally associated with wholesale sales of barite and industrial minerals which more than doubled during 2005, compared to 2004, due to the shortage of barite supplies in many U.S. markets.

Revenues in the Canadian market increased 75% during 2005, compared to 2004, which included increased activity due to the introduction of our New-100 oil-based drilling fluid system in the western Canadian market as well as increases in rig activity and the introduction of new drilling fluid systems.

Revenues in the Mediterranean market increased 19% during 2005, compared to 2004, principally related to increased market penetration in the North African locations that we service.

Operating Income

Operating income for this segment increased \$19.1 million (restated) in 2005 on a \$111.3 million (restated) increase in revenues, compared to 2004. The operating margin for this segment in

Table of Contents

2005 was 10.6% (restated), compared to 7.9% (restated) in 2004. The increase in operating margin was principally attributable to recent price increases and the operating leverage of this segment. The increase in operating margin was partially offset by increased barite costs that have not been fully recovered through price increases to our customers during 2005. More favorable transportation arrangements have helped to stabilize barite costs. Recent price increases should help recover the remainder of these cost increases.

Mat and Integrated Services*Revenues*

Total revenue for this segment consists of the following for 2005 and 2004 (dollars in millions):

	2005	2004	2005 vs. 2004	
			\$	%
Installation	\$ 14.6	\$ 15.9	\$ (1.3)	(8)
Re-rental	8.5	6.4	2.1	33
Total U.S. oilfield mat rental	23.1	22.3	0.8	4
Non-oilfield mat rental	4.9	4.7	0.2	4
Integrated services and other	46.4	44.2	2.2	5
Canadian mat sales	9.9	5.1	4.8	94
Composite mat sales	25.2	19.7	5.5	28
Total	\$ 109.5	\$ 96.0	\$ 13.5	14

U.S. oilfield mat rental volume for 2005 totaled 13.5 million square feet at an average price of \$1.08 per square foot. This compares to 15.9 million square feet at an average price of \$1.00 per square foot in 2004. Our oilfield mat rental pricing should continue to increase as market conditions improve. Any further improvement in revenue will be contingent upon increased utilization of our mat inventory, related in part to reductions in available mat inventory, and to improvements in market activity. Re-rental revenues increased by \$2.1 million in 2005, compared to 2004, reflecting an increase in the number of larger installations in 2005.

Revenues from non-oilfield mat rentals, a premium margin market composed principally of seasonal utility and infrastructure construction markets, increased \$200,000, or 4%. Most of this increase occurred in the first quarter of 2005. Third quarter market conditions were hampered by four hurricanes affecting the southeastern region of the United States. However, we continue to believe that this market has growth opportunities due to increasing demand for electricity and the aging of our nation's electrical power delivery infrastructure.

Canadian revenues for 2005 and 2004 were related to sales of wooden mats. The increase in wooden mat sales is principally due to the unusually early break-up in Western Canada and continued acceptance of matting systems in this market as a means to improve the operating efficiency for our customers. The increase in sales primarily occurred in the first half of 2005.

Total composite mat sales increased for 2005, as compared to the same period in 2004. Recent increases in the number of Bravo sales have helped to offset declines in the more expensive DuraBase mat sales. During 2005, we recognized approximately \$25.2 million in composite mat sales.

Integrated services and other revenues, our lowest-margin business unit for this segment, includes a comprehensive range of environmental services necessary for our customers' oil and gas E&P activities. These revenues also include the operations of our sawmill in Batson, Texas.

Table of Contents*Operating Income*

Mat and integrated services operating income improved \$7.4 million (restated) in 2005 on a \$13.5 million increase in revenues, compared to 2004. The significant increase in operating income reflects the benefit of cost reductions which began in 2004, higher margin mat sales and the impact of improvement in pricing for our oilfield mat rental market.

Environmental Services*Revenues*

Total revenue for this segment consists of the following for 2005 and 2004 (dollars in millions):

	2005	2004	2005 vs. 2004	
			\$	%
E&P Waste Gulf Coast	\$40.6	\$39.8	\$ 0.8	2
E&P Waste Other Markets	14.3	18.6	(4.3)	(23)
NORM	3.5	3.2	0.3	9
Industrial	2.9	2.9		
Total	\$61.3	\$64.5	\$(3.2)	(5)

E&P waste Gulf Coast revenues increased \$800,000, or 2%, on a 10% increase in average revenue per barrel offset in part by a 5% decline in waste volumes received. The average revenue per barrel in the Gulf Coast market increased to \$12.96, compared to an average of \$11.82 in 2004. During 2005, we received 3,070,000 barrels of E&P waste in the Gulf Coast market, compared to 3,226,000 barrels in the comparable period in 2004. The decline in volumes received, in spite of the increase in Gulf Coast rig activity, includes the effect of temporary recycling process volume limitations affecting the first quarter of 2005. During this time, we lost some market share. With the process changes in place, we are back to full capacity, and we expect to see an increase in waste volumes received in this market, once activity returns to pre-storm levels.

The increase in Gulf Coast revenues was more than offset by lower revenues from the Wyoming and western Canadian market as resources and management focus were reallocated to development of the new water treatment business. Beginning in mid-2005, we added additional management resources in the western Canadian market and in the fourth quarter revenues and operating income began to improve.

Operating Income

Environmental services operating income declined \$1.8 million in 2005 on a \$3.2 million decrease in revenues, compared to 2004. The decline in operating income also reflects the impact of start-up costs for the water treatment operation absorbed in the segment during the period. These start-up costs totaled approximately \$800,000.

General and Administrative Expense

General and administrative expense increased \$151,000 (restated) to approximately \$9.5 million in 2005, compared to the same period in 2004. General and administrative expenses as a percentage of revenues were 1.7% in 2005, compared to 2.2% in 2004.

Table of Contents

Foreign Currency Exchange Gains

Net foreign currency gains totaled \$521,000 in 2005 compared to net foreign currency gains of \$301,000 in 2004. This change is primarily associated with strengthening of the Canadian dollar against the U.S. dollar and the associated impact on short-term intercompany payable balances of our Canadian operations.

Interest and Other Income

Interest and other income totaled \$158,000 in 2005, compared to \$1.3 million in 2004. During the second quarter of 2004 we collected the entire balance owed on a note receivable resulting from the 1996 sale of a former shipyard operation. The payment included \$823,000 of previously unaccrued interest related to the note receivable, which is included in interest income for 2004. We had ceased accrual on the note receivable in January 2003 due to the financial condition of the operator.

Interest Expense

Interest expense increased approximately \$1.4 million for 2005 compared to 2004. This increase was principally due to an increase in average outstanding debt during 2005. Debt outstanding increased principally due to a \$6.2 million increase related to the consolidation of our mat manufacturing operations as a result of our purchase of the remaining 51% interest in these operations in the second quarter of 2005, a \$4.2 million increase related to the assumption of a lease in January 2005 from a joint venture which supplied a portion of our wooden mats and \$4.7 million in new financing for wooden mat additions. The remainder of the increase in outstanding debt is related to funding of working capital in our Mediterranean operations and funding of a portion of 2005 capital expenditures, including expenditures related to NEWS.

Provision for Income Taxes

For 2005, we recorded an income tax provision of \$11.3 million (restated), reflecting an income tax rate of 33.2% (restated). For 2004, we recorded an income tax provision of \$3.0 million (restated), reflecting an income tax rate of 35.4% (restated). The lower effective rate in 2005 reflects the favorable impact of changes in estimates, including estimated tax reserves, totaling approximately \$1.6 million. These changes in estimates relate to final Canadian tax audits.

Table of Contents**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003****Fluids Systems and Engineering***Revenues*

Total revenue by region for this segment was as follows for 2004 and 2003 (dollars in millions):

	2004	2003	2004 vs. 2003	
			\$	%
Gulf Coast	\$108.9	\$ 87.2	\$21.7	25%
U.S. Central	102.4	59.5	42.9	72
Other	9.1	6.1	3.0	49
Total U.S.	220.4	152.8	67.6	44
Canada	18.5	26.0	(7.5)	(29)
Mediterranean	34.0	36.7	(2.7)	(7)
Total	\$272.9	\$215.5	\$57.4	27

The average number of rigs we serviced in the U.S. market increased by 44%, from 111 in 2003 to 160 in 2004. Average annual revenue per rig in the U.S. market increased by 9% from approximately \$1,270,000 in 2003 to approximately \$1,378,000 in 2004.

Revenue in our primary Gulf Coast market for 2004 increased \$21.7 million, or 25%, as compared to 2003, primarily related to increased market penetration, in spite of the stable number of rigs active in this market. Revenues in the Gulf Coast market were negatively impacted by significant tropical weather systems during the third quarter of 2004.

Revenues in the U.S. Central region increased 72% in 2004 as compared to 2003. We serviced an average of 101 rigs in this region in 2004, as compared to 64 in 2003, an increase of 58%. The average number of rigs operating in this region increased 25%, from 377 rigs in 2003 to 470 in 2004. The difference between the increase in the number of rigs serviced in this region and the number of rigs active in the region reflects our market penetration. The difference between the increase in revenues and the increase in the number of rigs serviced in these markets also reflects the expansion of our product offerings in this market.

Revenues in the Canadian market declined 29% during 2004, as compared to 2003, due to a reduction in services provided to a major customer, while average rig activity in the Canadian market remained relatively stable period to period. In addition, our principal market areas within Canada experienced extreme weather-related declines as compared to the prior year and as compared to other areas in the Canadian market as a whole.

Revenues in the Mediterranean market declined 7% during 2004, as compared to 2003. This year over year decline in revenue is principally related to the effect of a decline in the U.S. dollar on Euro denominated contracts and the completion of several contracts. Beginning in 2004, we focused on improving margins for these operations rather than increasing revenues.

Operating Income

Operating income for this segment increased \$10.0 million (restated) in 2004 on a \$57.4 million increase in revenues as compared to 2003. The operating margin for this segment in 2004 was 7.9% (restated) as compared to 5.4% (restated) in 2003. The increase in operating margin was primarily attributable to operating leverage related to the significant growth in the U.S. central

Table of Contents

region. Partially offsetting the impact of revenue growth in this region was the decline in Canadian revenue related to severe weather conditions in the second quarter of 2004.

Operating margins in 2004 for this segment were impacted by increased pricing for barite, principally due to increased transportation costs for bulk shipments of barite from our suppliers. We began increasing our barite prices to customers in late 2004 to offset the raw material cost increase. In addition to the increase in barite costs, margins for the Gulf Coast market were negatively impacted by the impact of the severe tropical weather in the third quarter.

Mat and Integrated Services*Revenues*

Total revenue for this segment consists of the following for 2004 and 2003 (dollars in millions):

	2004	2003 (Restated)	2004 vs. 2003 (Restated)	
			\$	%
Installation	\$ 15.9	\$ 15.5	\$ 0.4	3%
Re-rental	6.4	8.6	(2.2)	(26)
Total U.S. oilfield mat rental	22.3	24.1	(1.8)	(7)
Non-oilfield mat rentals	4.7	1.6	3.1	193
Integrated services and other	44.2	44.6	(0.4)	(1)
Canadian operations	5.1	9.3	(4.2)	(45)
Composite mat sales	19.7	8.4	11.3	135
Total	\$96.0	\$88.0	\$ 8.0	9

Mat rental volume for 2004 totaled 15.9 million square feet at an average price of \$1.00 per square foot. This compares to 16.6 million square feet at an average of \$0.93 per square foot in 2003.

During 2003, we transitioned our Canadian mat operations to a sales organization for wooden and composite mats. All of the Canadian revenue for 2004 was related to sales of wooden and composite mats, while revenue for 2003 included rental and sales revenues.

During 2004, we recognized approximately \$19.7 million in composite mat sales. During this period we sold approximately 15,600 Dura-Base® composite mats, resulting in \$19.1 million in revenues, and we sold approximately 4,500 Bravo composite mats, resulting in approximately \$600,000 in revenues. During 2003, we recognized approximately \$8.4 million in composite mat sales. During this period we sold approximately 4,900 Dura-Base® composite mats, resulting in \$8.7 million in revenues, and we sold approximately 4,200 Bravo composite mats, resulting in approximately \$600,000 in revenues.

Integrated services and other revenues, our lowest-margin business unit for this segment, includes a comprehensive range of environmental services necessary for our customers' oil and gas E&P activities. These revenues also include the operations of our sawmill in Batson, Texas.

Operating Income

Mat and integrated services operating income increased \$5.2 million (restated) in 2004 on an \$8.0 million (restated) increase in revenues as compared to 2003. Most of the increase in operating income was attributable to the significant increase in composite mat sales in 2004, which have higher margins than other products and services in this segment. In addition, the fourth quarter of 2004 benefited from cost reduction efforts principally related to resizing our rental fleet, reductions in infrastructure, and other services and related payroll reductions.

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

Total revenue for this segment consists of the following for 2004 and 2003 (dollars in millions):

	2004	2003	2004 vs. 2003	
			\$	%
E&P Waste Gulf Coast	\$39.8	\$46.3	(6.5)	(14)%
E&P Waste Other Markets	18.6	17.6	1.0	6
NORM	3.2	2.7	0.5	19
Industrial	2.9	2.2	0.7	32
Total	\$64.5	\$68.8	(4.3)	(6)%

E&P waste Gulf Coast revenues declined \$6.5 million, or 14%, on a 10% decline in waste volumes received and a decline in the average revenue per barrel resulting from a change in mix of waste received. During 2004, we received 3,226,000 barrels of E&P waste in the Gulf Coast market, compared to 3,589,000 barrels in 2003. A portion of the decline in barrels received is attributable to the effects of significant tropical weather in the third quarter of 2004. The average revenue per barrel in the Gulf Coast market declined 6%, to \$11.82, as compared to an average of \$12.52 in 2003.

The decline in Gulf Coast revenues was partially offset by increases in revenue due to the start-up of operations serving Wyoming's Jonah-Pinedale trend, which began operations in early 2003. Also partially offsetting the Gulf Coast decline were increases in NORM and industrial disposal revenue. The increase in industrial revenues was principally due to disposal of waste received in connection with a special project for one customer during the first quarter of 2004, which did not recur.

Operating Income

Environmental services operating income declined \$4.8 million (restated) in 2004 on a \$4.3 million decline in revenues as compared to 2003. Contribution increases from other markets did not fully offset the volume-related decline in the premium-priced Gulf Coast oilfield market, which was partially due to significant tropical weather in the third quarter of 2004. In addition, fuel and transportation expenses increased significantly beginning in the second quarter of 2004 as compared to the prior year. These increases were not fully offset by price increases by the end of 2004.

General and Administrative Expenses

General and administrative expenses increased \$3.6 million to approximately \$9.4 million in 2004 as compared to 2003. The majority of the increase is due to \$2.6 million of litigation costs related to recently settled litigation, net of amounts recoverable from insurance policies. In addition, general and administrative expense increased approximately \$440,000 as a result of new corporate governance and compliance related expenses and approximately \$354,000 due to start up costs related to our new joint venture in Mexico. Increased insurance and personnel costs accounted for the remaining increase in general and administrative expense.

Impairment Losses

We recorded an impairment loss of \$3.4 million in the fourth quarter of 2004 due to the other-than-temporary impairment of an investment in convertible, redeemable preferred stock of a company that owns thermal desorption technology. The company in which we had invested suffered an adverse judgment in a patent case and filed for protection under Chapter 11 bankruptcy proceedings. In the fourth quarter of 2004, the company was forced into conversion of its Chapter 11 proceedings to Chapter 7 bankruptcy

Table of Contents

proceedings by the plaintiff. With no access to its equipment and the related operating cash flows due to this conversion, the company had to cease its operations in the fourth quarter of 2004. Though our investment remains collateralized by equipment, an impairment loss was recorded as the recovery of our investment is considered remote due to the impact of the Chapter 7 proceedings and other actions taken by the plaintiff during the fourth quarter. At December 31, 2003, this investment was reported in other assets on the consolidated balance sheet and was not included in the assets of our reportable segments.

The impairment loss in 2003 related to our evaluation of the net realizable value of assets at our old barite grinding facilities in Channelview, Texas that will be completely abandoned after the relocation of these facilities is completed in 2005. The underlying assets were included in the assets of the Fluids Systems and Engineering segment.

Foreign Currency Exchange Gains

Net foreign currency gains totaled \$301,000 in 2004 as compared to \$831,000 in 2003. The principal components of foreign currency gains in the prior year were realized and unrealized gains on short-term intercompany payable balances of our Canadian operations due to the significant decline in the U.S. dollar against the Canadian dollar in 2003. These intercompany balances are denominated in U.S. dollars. In 2004, the net foreign currency gains also were associated with weakening of the U.S. dollar against the Canadian dollar and the associated impact on these same intercompany balances.

Interest and Other Income

Interest income totaled \$1.3 million in 2004, as compared to \$633,000 in 2003. During 2004, we collected the entire balance owed on a note receivable in connection with the 1996 sale of a former shipyard operation. The payment included all interest accruable on the note receivable. We had stopped accruing interest on the note receivable in January 2003 due to the financial condition of the operator. Included in interest income for 2004 is \$823,000 of previously unaccrued interest related to the note receivable.

Interest Expense

Interest expense of \$14.8 million declined \$455,000 from the prior year amount of \$15.3 million. The decline is principally related to lower total cost of our revolving credit facility. During the first quarter of 2004, we restructured our bank credit facility, which reduced the effective interest rate on our revolving facility by approximately one percent.

Provision for Income Taxes

For 2004, we recorded an income tax provision of \$3.0 million (restated), reflecting an income tax rate of 35.4% (restated). For 2003, we recorded an income tax provision of \$2.3 million (restated), reflecting an income tax rate of 58.1% (restated). The 2003 effective tax rate reflected a higher mix of foreign income, which is taxed at higher rates than domestic income, and from the level of non-deductible business expenses in relation to low pretax income.

Table of Contents**Liquidity and Capital Resources**

Our working capital position was as follows as of December 31:

	2005 (Restated)	2004 (Restated)	2003 (Restated)
Working Capital (000s)	\$ 164,508	\$ 144,383	\$ 129,060
Current Ratio	2.47	2.82	2.68

During 2005, our working capital position increased by \$20.1 million (restated). Net trade accounts receivable increased \$36.6 million (restated) as of December 31, 2005, as compared to December 31, 2004. Annualized revenues as of the fourth quarter of 2005 were \$581 million (restated), as compared to \$455 million as of the fourth quarter of 2004. For the fourth quarter of 2005, days sales in receivables increased by 5 days to 86 days, from 81 days in the fourth quarter of 2004. The increase in receivable days is considered temporary and we believe may be due to disruptions in mail services related to Hurricanes Katrina and Rita.

We anticipate that our working capital requirements for 2006 will increase with the anticipated growth in revenue. Some of the increase in working capital requirements should be offset by our continued focus on improving our collection cycle. However, we have the ability to supplement our operating cash flows with borrowings under our credit facility to fund the expected increase in working capital. We believe we have adequate capacity under our credit facility to meet these anticipated working capital needs.

Cash generated from operations during 2005 totaled \$29.1 million (restated). This cash, along with increased borrowings of \$13.6 million and proceeds from option exercises of \$6.1 million, was used principally to fund net capital expenditures and investments of \$35.2 million (restated). Capital expenditures within our established business segments totaled \$24.6 million (restated), compared to \$24.5 million (restated) in depreciation and amortization. We also invested \$11.2 million in 2005 for acquisition of the first two water treatment systems and construction of related facilities. We anticipate that, except for acquisition costs of the water treatment systems and related facilities, the 2006 capital expenditures will approximate annual depreciation and that we will fund capital expenditures with cash generated from operations.

Our long term capitalization was as follows as of December 31:

	2005 (Restated)	2004 (Restated)	2003 (Restated)
Long-term debt (excluding current maturities):			
Senior subordinated notes	\$125,000	\$125,000	\$125,000
Credit facility	38,573	39,633	52,500
Barite facilities financing	11,875	13,229	
Loma financing	2,638		
Other, primarily mat financing	7,847	8,424	6,100
Total long-term debt	185,933	186,286	183,600
Stockholders equity	346,725	319,656	310,083
Total capitalization	\$532,658	\$505,942	\$493,683
Long-term debt to long-term capitalization	34.9%	36.8%	37.2%

The Senior Subordinated Notes accrue interest at the rate of 8 5/8%, require semi-annual interest payments and mature on December 15, 2007.

Table of Contents

On February 25, 2004, we converted our bank credit facility into an asset-based facility (the Credit Facility) that is secured by substantially all of our domestic assets. The Credit Facility, as amended, matures on June 25, 2007. Under the Credit Facility, we can borrow up to \$15 million in term debt and \$70 million in revolving debt, for a total of \$85 million. At December 31, 2005, \$8.8 million was outstanding under the term portion of the Credit Facility. Eligibility under the revolving portion of the Credit Facility is based on a percentage of our eligible consolidated accounts receivable and inventory, as defined in the Credit Facility. At December 31, 2005, the maximum amount we could borrow under the revolving portion of the Credit Facility was \$59.7 million. At December 31, 2005, \$11.7 million in letters of credit were issued and outstanding and \$32.8 million was outstanding under the revolving portion of the Credit Facility, leaving \$15.2 million of availability at that date. The Credit Facility bears interest at either a specified prime rate (7.25% at December 31, 2005), or the three-month LIBOR rate (4.53% at December 31, 2005), in each case plus a spread determined quarterly based upon a fixed charge coverage ratio. The weighted average interest rates on the outstanding balances under the credit facilities for the years ended December 31, 2005 and 2004 were 6.5% and 4.7%, respectively.

The Barite Facilities Financing is a \$15 million term loan facility that bears interest at one-month LIBOR plus 3.75% (8.04% at December 31, 2005) payable monthly, and matures August 1, 2009. Principal payments are required monthly based on an amortization period of 12 years, with a balloon payment at the maturity date. The Barite Facilities Financing is collateralized by our four barite facilities. At December 31, 2005, \$13.1 million was outstanding under this agreement.

The Credit Facility and the Barite Facilities Financing contain a fixed charge coverage ratio covenant and a tangible net worth covenant. As of December 31, 2005, we were in compliance with the covenants contained in these facilities. The Notes do not contain any financial covenants; however, if we do not meet the financial covenants of the Credit Facility and are unable to obtain an amendment from the banks, we would be in default of the Credit Facility which would cause the Notes to be in default and immediately due. The Notes and the Credit Facility also contain covenants that significantly limit the payment of dividends on our common stock.

During 2005, we entered into a secured financing facility which provides up to \$8 million in financing for wooden mat additions. At December 31, 2005, we had borrowed \$4.1 million under the facility. Principal payments totaling approximately \$97,000 are required monthly for 48 months. Interest based on one-month LIBOR plus 3.45% is also payable monthly.

Ava, S.p.A (Ava), our European drilling fluids subsidiary, maintains its own credit arrangements, consisting primarily of lines of credit with several banks, with the lines renewed on an annual basis. Advances under these credit arrangements are typically based on a percentage of Ava s accounts receivable or firm contracts with certain customers. The weighted average interest rate under these arrangements was approximately 5.6% at December 31, 2005. As of December 31, 2005, Ava had a total of \$11.1 million outstanding under these facilities, including approximately \$200,000 reported in long-term debt. We do not provide a corporate guaranty of Ava s debt.

At December 31, 2004, we had issued a guarantee for certain lease obligations of a joint venture which supplied a portion of our wooden mats on a day rate leasing basis (MOCTX). The amount of this guarantee as of December 31, 2004 was \$4.2 million. In January 2005, MOCTX was dissolved and we took possession of the underlying assets and assumed the obligations under the leases. We recorded these leases as capital leases in accordance with FAS 13. At December 31, 2005, \$1.6 million was outstanding under these capital leases.

On April 18, 2005, we acquired OLS Consulting Services, Inc. (OLS) in exchange for a net cash payment of \$881,000. The principal assets of OLS included patents licensed to The Loma Company, LLC (LOMA) for use in the manufacture of composite mats, its 51% membership interest in LOMA and a note receivable from LOMA. As a result of the acquisition of OLS, through two of our subsidiaries, we also own 100% of LOMA and have consolidated the balance sheet and

Table of Contents

results of operations of LOMA with our financial statements. Prior to the acquisition of OLS, we accounted for our investment in LOMA on the cost method. At December 31, 2004, our investment in LOMA was \$11.4 million, including \$10.2 million in receivables recorded in connection with a favorable judgment in a pricing dispute. This receivable was included in other assets as of December 31, 2004, and was net of any allowances for amounts deemed to be uncollectible from LOMA in the future. We accounted for the acquisition of OLS and consolidation of LOMA following the principles of FAS 141. The effect on our consolidated balance sheet was as follows (in thousands):

Current assets, net of cash acquired	\$ 467
Property, plant and equipment	15,660
Intangible assets patents (10 - 18 year lives)	4,642
Accrued liabilities	(21)
Current and long-term debt	(6,166)
Deferred tax liability	(37)
Notes and other receivables	(567)
Other assets	(13,097)
Cash purchase price, net of cash acquired	 \$ 881

At December 31, 2005, we had issued a \$4.5 million guarantee of certain debt obligations of LOMA supported by a letter of credit issued under the Credit Facility. These underlying debt obligations of LOMA require monthly escrow payments of principal of \$147,000, interest and letter of credit fees payable monthly based on a variable rate, which approximated 6.5% at December 31, 2005, and mature in December 2008. Beginning in September 2004 and during the course of the LOMA bankruptcy proceedings, we made debt service payments on behalf of LOMA in connection with our guarantee that totaled approximately \$1.1 million through the date of the acquisition. Since our guarantee is secured by a letter of credit and declines with each payment, availability under our Credit Facility has not been impacted by debt service payments made to date and will not be impacted by future payments. We are presently working with the Credit Facility lenders to refinance LOMA's debt obligations.

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

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

Table of Contents

A summary of our outstanding contractual and other obligations and commitments at December 31, 2005 is as follows (in millions):

	Total	Payments Due By Period			After 5 Years
		Less Than 1 Year	1-3 Years	4-5 Years	
Long-term debt and capital leases	\$198.6	\$ 12.7	\$175.7	\$10.2	\$
Foreign bank lines of credit	10.9	10.9			
Interest on debt obligations	30.1	15.8	13.9	0.4	
Operating leases	34.6	11.2	15.1	4.8	3.5
Trade accounts payable and accrued liabilities reflected in balance sheet (restated)	88.1	88.1			
Purchase commitments, not accrued (1)	9.5	9.5			
Other long-term liabilities reflected in balance sheet	2.7		2.7		
Performance bond obligations	9.6				9.6
Standby letter of credit commitments not included elsewhere	1.4	1.4			
Total contractual obligations (restated)	\$385.5	\$149.6	\$207.4	\$15.4	\$13.1

(1) Includes purchase order commitments for inventory (including \$5.2 million secured by standby letters of credit) not received as of December 31, 2005.

We anticipate that the obligations and commitments listed above that are due in less than one year will be paid from operating cash flows.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles, which requires us to make assumptions, estimates and judgments that affect the amounts reported. We periodically evaluate our estimates and judgments related to uncollectible accounts and notes receivable, inventory, customer returns, impairments of long-lived assets, including goodwill and other intangibles and our valuation allowance for deferred tax assets. Note B to the consolidated financial statements contains the accounting policies governing each of these matters. Our estimates are based on historical experience and on our future expectations that are believed 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.

We believe the critical accounting policies described below affect our more significant judgments and estimates used in preparing our consolidated financial statements.

Revenue Recognition

The fluids systems and engineering segment recognizes sack and bulk material additive revenues upon shipment of materials. Formulated liquid systems revenues are recognized when utilized or lost downhole while drilling. A return reserve is booked to estimate potential product returns. Engineering and related services are provided to customers at agreed upon hourly or daily rates, and revenues are recognized when the services are performed.

For the environmental services segment, revenues are recognized when we take title to the waste, which is upon receipt of the waste at our facility. All costs related to the transporting and disposing of the waste received are accrued when that revenue is recognized.

Table of Contents

For the mat and integrated services segment, revenues for sales of wooden or composite mats are recognized when title passes to the customer, which is upon shipment or delivery, depending upon the terms of the underlying sales contract.

Revenues in the mat and integrated services segment are generated from both fixed price and unit-priced contracts, which are short-term in duration. The activities under these contracts include site preparation, pit design, construction and drilling waste management, and installation and use of our composite or wooden mat systems during an initial period. This initial period includes revenues and costs for site preparation, installation and use of mat systems. Revenues from these contracts are recorded using the percentage-of-completion method based on project milestones as specified in the contracts.

At the end of the initial period, the customer, at its option, may extend the use of the mat systems. Revenues related to the extension period are quoted either on a day-rate basis or at a fixed price and are recognized ratably over the agreed extension period. Revenues for services provided to customers at agreed upon hourly or daily rates are recognized when the services are performed. The services typically provided to our customers at agreed upon hourly or daily rates include site assessment and regulatory compliance.

All reimbursements by customers of shipping and handling costs are included in revenues. Shipping and handling costs are included in cost of revenues in the income statement.

Allowance for Doubtful Accounts

Reserves for uncollectible accounts receivable and notes receivable are determined on a specific identification basis when we believe that the required payment of specific amounts owed to us is not probable. For notes receivable, our judgments with respect to collectibility includes evaluating any underlying collateral.

The majority of our revenues are from mid-sized and international oil companies and government-owned or government-controlled oil companies, and we have receivables in several foreign jurisdictions. Changes in oil and gas drilling activity or changes in economic conditions in foreign jurisdictions could cause our customers to be unable to repay these receivables, resulting in additional allowances. Since amounts due from individual customers can be significant, future adjustments to the allowance can be material.

Inventory

Reserves for inventory obsolescence are determined based on fair value of the inventory using factors such as our historical usage of inventory on-hand, future expectations related to our customers needs, market conditions and the development of new products. We have recently developed several new products, including our DeepDrill® family of products and our Dura-Base™ and Bravo™ composite plastic mat systems. Our inability to obtain market acceptance of these products, changes in oil and gas drilling activity and the development of new technologies associated with the drilling industry could require additional allowances to reduce the value of inventory to the lower of its cost or net realizable value.

Impairments

Our consolidated balance sheet as of December 31, 2005 includes goodwill and other intangible assets, net of amortization, totalling approximately \$129.7 million (restated). This amount has principally been recorded as a result of business combinations. In addition, our consolidated balance sheet as of December 31, 2005 includes property, plant and equipment, net of accumulated depreciation, of approximately \$238.4 million (restated). In assessing the recoverability of our goodwill, intangible assets and property, plant and equipment, we must make assumptions

Table of Contents

regarding estimated future cash flows and other factors to determine the value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges not previously recorded for these assets.

We perform goodwill and intangible asset impairment tests on at least an annual basis in accordance with the guidance in Financial Accounting Standard (FAS) 142, Goodwill and Other Intangible Assets. A significant amount of judgment is required in performing goodwill and other intangible assets impairment tests. These tests include estimating the fair value of our reporting units and other intangible assets. With respect to goodwill, as required by FAS 142, we compare the estimated fair value of our reporting units with their respective carrying amounts, including goodwill. Under FAS 142, fair value refers to the amount for which the entire reporting unit may be bought or sold. Our methods for estimating reporting unit fair values include discounted cash flows and multiples of earnings. We typically identify our reporting units based on geographic markets within each of our business segments.

We perform property, plant and equipment and other long-lived asset impairment tests in accordance with FAS 144, Accounting for Impairment or Disposal of Long-Lived Assets. In accordance with FAS 144, impairments are calculated based on a future cash flow concept.

We assess the impairment of goodwill, other intangible assets, property, plant and equipment and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important, which could trigger an impairment review, include the following:

significant underperformance relative to expected historical or projected future operating results;

significant changes in our use of the acquired assets or the strategy for our overall business;

significant negative industry or economic trends;

significant changes in the market value of assets;

significant decline in our stock price for a sustained period and in our market capitalization relative to our net book value.

When we determine that the carrying value of intangibles, long-lived assets and related goodwill may not be recoverable based on one or more of the above indicators, any impairment is calculated in accordance with FAS 142 and FAS 144 and recorded as an impairment loss.

Income Taxes

We have net deferred tax assets of \$12.0 million (restated) at December 31, 2005. We provide for deferred taxes in accordance with FAS 109, Accounting for Income Taxes. Under FAS 109, a valuation allowance must be established to offset a deferred tax asset if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax asset will not be realized. At December 31, 2005, we had recorded a valuation allowance for all state NOLs and for NOLs generated during start up operations of our Mexican joint venture. We have considered future taxable income and tax planning strategies in assessing the need for our valuation allowance. Should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period this determination was made.

New Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued FAS 123 (revised 2004),

Share-Based Payment, (FAS 123(R)) which is a revision of FAS 123, Accounting for Stock-Based Compensation. FAS 123(R) supersedes Accounting Principles Board (APB)

Table of Contents

Opinion No. 25, Accounting for Stock Issued to Employees, and amends FAS 95, Statement of Cash Flows. Generally, the approach in FAS 123(R) is similar to the approach described in FAS 123. However, FAS 123(R) requires that all share-based payments to employees, including grants of employee stock options, be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. We adopted FAS 123(R) effective January 1, 2006. FAS 123(R) permits adoption of its requirements using one of two methods: (1) a modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirement of FAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of FAS 123 for all awards granted prior to the effective date of FAS 123(R) that remain unvested on the effective date; and (2) a modified retrospective method which includes the requirements of the modified prospective method previously described, but also permits restatement of prior periods based on the amounts previously reported in pro forma disclosures under FAS 123. We currently plan to adopt FAS 123(R) using the modified prospective method.

As permitted by FAS 123, through December 31, 2005, we have accounted for stock-based compensation using Accounting Principles Board (APB) 25's intrinsic value method and, as such, only recognized compensation cost for our stock option plans when the exercise price of the stock option granted was less than the fair value of the underlying common stock at the date of grant. Accordingly, the adoption of FAS 123(R) will likely have a material impact on our results of operations. However, the ultimate impact of adoption of FAS 123(R) cannot be predicted because it will depend on levels of share-based payments granted in the future. However, had we adopted FAS 123(R) in prior periods, the impact would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and earnings per share in Note B to our consolidated financial statements under the heading Stock-Based Compensation.

In November 2004, the FASB issued FAS 151, Inventory Costs—an amendment of ARB No. 43, Chapter 4, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). It requires that these items be recognized as current-period charges regardless of whether they meet a criterion of so abnormal. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. We adopted FAS 151 effective January 1, 2006. We do not expect adoption of FAS 151 to have a material impact on our financial results.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates and changes in foreign currency rates. We do not believe that we have a material exposure to market risk. Historically, we have not regularly entered into derivative financial instrument transactions to manage or reduce market risk or for speculative purposes. However, during the quarter ended March 31, 2005, we did enter into a foreign currency forward contract arrangement. A discussion of our primary market risk exposure in financial instruments is presented below.

Interest Rate Risk

Our policy historically has been to manage exposure to interest rate fluctuations by using a combination of fixed and variable-rate debt. At December 31, 2005, we had total debt outstanding of \$209.5 million, of which \$125 million, or 60%, is our Senior Subordinated Notes (the Notes), which bear interest at a fixed rate of 8.625%. The remaining \$84.5 million of debt outstanding at December 31, 2005 bears interest at a floating rate. At December 31, 2005, the weighted average interest rate under our floating-rate debt was approximately 6.8%. A 200 basis point increase in market interest rates during 2006 would cause our annual interest expense to increase approximately \$1.0 million, net of taxes, resulting in a \$0.01 per diluted share reduction in annual earnings.

Table of Contents

The Notes mature on December 15, 2007. There are no scheduled principal payments under the Notes prior to the maturity date. However, all or some of the Notes may be redeemed at a premium after December 15, 2002. We have no current plans to repay the Notes ahead of their scheduled maturity.

Foreign Currency

Our principal foreign operations are conducted in Canada and in areas surrounding the Mediterranean Sea. We have foreign currency exchange risks associated with these operations, which are principally conducted in the functional currency of the jurisdictions in which we operate. Historically, we have not used off-balance sheet financial hedging instruments to manage foreign currency risks when we have entered into transactions denominated in a currency other than our local currencies, because the dollar amount of these transactions has not warranted our using hedging instruments. However, during the quarter ended March 31, 2005, our Canadian subsidiary committed to purchase approximately \$2.0 million of barite from one of our U.S. subsidiaries and entered into a foreign currency forward contract arrangement to reduce its exposure to foreign currency fluctuations related to this commitment. The forward contract requires that the Canadian subsidiary purchase approximately \$2.0 million U.S. dollars at a contracted exchange rate of 1.2496 over a two year period. At December 31, 2005, the fair value of this forward contract represents a loss of approximately \$85,000.

During the years ended December 31, 2005, 2004 and 2003, we reported foreign currency gains of \$521,000, \$301,000 and \$831,000, respectively. These transactional gains were primarily due to exchange rate fluctuations related to monetary asset balances denominated in currencies other than our functional currency, including intercompany advances which were deemed to be short-term in nature. We estimate that a hypothetical 10% movement of all applicable foreign currency exchange rates would affect annual earnings by approximately \$279,000, due to the revaluing of these monetary assets and intercompany balances.

Assets and liabilities of our foreign subsidiaries are translated using the exchange rates in effect at the balance sheet date, resulting in translation adjustments that are reflected in accumulated other comprehensive income in the stockholders' equity section of our balance sheet. Our comprehensive income includes translation gains (losses) of \$(583,000), \$3.1 million and \$5.9 million for the years ended December 31, 2005, 2004 and 2003, respectively. As of December 31, 2005, net assets of foreign subsidiaries included in our consolidated balance sheet totaled \$39.6 million. We estimate that a hypothetical 10% movement of all applicable foreign currency exchange rates would affect other comprehensive income by approximately \$3.6 million.

Fair Value of Financial Instruments

The fair value of cash and cash equivalents, net accounts receivable, accounts payable and variable rate debt approximated book value at December 31, 2005. The fair value of the Notes totaled \$124.5 million at December 31, 2005. The fair value of the Notes has been estimated based on quotes from the lead broker.

Table of Contents

ITEM 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Newpark Resources, Inc.

We have audited the accompanying consolidated balance sheets of Newpark Resources, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Newpark Resources, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, the consolidated financial statements have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Newpark Resources, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 7, 2006 expressed an unqualified opinion on management's assessment of and an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Ernst & Young LLP

New Orleans, Louisiana

October 7, 2006

Table of Contents

Newpark Resources, Inc.
Consolidated Balance Sheets
 December 31,

(In thousands, except share data)	2005 (Restated)	2004 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,989	\$ 7,022
Trade accounts receivable, less allowance of \$804 and \$3,260 at December 31, 2005 and 2004, respectively	137,174	100,587
Notes and other receivables	12,623	6,265
Inventories	88,731	84,044
Deferred tax asset	16,231	12,501
Prepaid expenses and other current assets	13,448	13,275
Total current assets	276,196	223,694
Property, plant and equipment, at cost, net of accumulated depreciation	238,409	208,789
Goodwill	116,841	117,414
Deferred tax asset		9,581
Other intangible assets, net of accumulated amortization	12,809	9,770
Other assets	7,039	18,123
	\$651,294	\$ 587,371
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Foreign bank lines of credit	\$ 10,890	\$ 8,017
Current maturities of long-term debt	12,696	5,031
Accounts payable	47,371	38,822
Accrued liabilities	40,731	27,441
Total current liabilities	111,688	79,311
Long-term debt, less current portion	185,933	186,286
Deferred tax liability	4,211	
Other noncurrent liabilities	2,737	2,118
Stockholders equity:		
Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, none and 80,000 shares outstanding at December 31, 2005 and 2004, respectively		20,000
Common Stock, \$0.01 par value, 100,000,000 shares authorized, 88,436,112 and 84,021,351 shares outstanding at December 31, 2005 and 2004, respectively	884	840
Paid-in capital	436,636	411,537
Unearned restricted stock compensation	(235)	(472)

Edgar Filing: NEWPARK RESOURCES INC - Form 10-K/A

Accumulated other comprehensive income	7,616	8,199
Retained deficit	(98,176)	(120,448)
Total stockholders equity	346,725	319,656
	\$651,294	\$ 587,371

See Accompanying Notes to Consolidated Financial Statements

52

Table of ContentsNewpark Resources, Inc.
Consolidated Statements of Income
Year Ended December 31,

(In thousands, except share data)	2005 (Restated)	2004 (Restated)	2003 (Restated)
Revenues	\$555,018	\$433,422	\$372,260
Cost of revenues	495,063	398,167	347,382
	59,955	35,255	24,878
General and administrative expenses	9,545	9,394	5,813
Provision for uncollectible accounts	843	800	1,000
Impairment losses		3,399	350
Operating income	49,567	21,662	17,715
Foreign currency exchange gain	(521)	(301)	(831)
Interest and other income	(158)	(1,345)	(633)
Interest expense	16,155	14,797	15,251
Income before income taxes	34,091	8,511	3,928
Provision for income taxes	11,310	3,014	2,284
Net income	22,781	5,497	1,644
Less: Preferred stock dividends and accretion	509	938	1,583
Net income applicable to common and common equivalent shares	\$ 22,272	\$ 4,559	\$ 61
Income per common and common equivalent share:			
Basic	\$ 0.26	\$ 0.05	\$ 0.00
Diluted	\$ 0.26	\$ 0.05	\$ 0.00

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

Newpark Resources, Inc.

Consolidated Statements of Comprehensive Income

Year Ended December 31,

(In thousands)	2005 (Restated)	2004 (Restated)	2003 (Restated)
Net income	\$22,781	\$5,497	\$1,644
Other comprehensive income (loss):			
Foreign currency translation adjustments	(583)	3,166	5,897
Comprehensive income	\$22,198	\$8,663	\$7,541

See Accompanying Notes to Consolidated Financial Statements

54

Table of Contents

Newpark Resources, Inc.

Consolidated Statements of Stockholders Equity

Year Ended December 31,

(In thousands)	Preferred Stock	Common Stock	Paid-In Capital (Restated)	Unearned Restricted Stock	Accumulated Other Compre- hensive Income	Retained Deficit (Restated)	Total (Restated)
Balance at January 1, 2003	\$ 41,875	\$ 777	\$ 376,278	\$(281)	\$ (864)	\$(112,362)	\$ 305,423
Beginning balance adjustment (1)			8,796			(12,706)	(3,910)
Balance at January 1, 2003 (restated)	41,875	777	385,074	(281)	(864)	(125,068)	301,513
Employee stock options and ESPP			303				303
Stock option compensation expense			818				818
Net income tax effect of exercised/ forfeited/expired employee stock options			(353)				(353)
Amortization of restricted stock				277			277
Issuances of restricted stock		2	881	(883)			
Cancellations of restricted stock			(100)	84			(16)
Foreign currency translation					5,897		5,897
Preferred stock dividends		4	1,579			(1,583)	
Conversion of Series C preferred stock	(11,875)	28	11,847				
Net income						1,644	1,644
Balance at December 31, 2003	30,000	811	400,049	(803)	5,033	(125,007)	310,083
Employee stock options and ESPP		2	1,061 256				1,063 256

Stock option compensation expense							
Net income tax effect of exercised/forfeited/expired employee stock options			(146)				(146)
Amortization of restricted stock				331			331
Foreign currency translation					3,166		3,166
Preferred stock dividends	1		343			(938)	(594)
Conversion of Series C preferred stock	(10,000)	26	9,974				
Net income						5,497	5,497
Balance at December 31, 2004	20,000	840	411,537	(472)	8,199	(120,448)	319,656
Employee stock options and ESPP		10	5,189				5,199
Stock option compensation expense			203				203
Net income tax effect of exercised/forfeited/expired employee stock options			(393)				(393)
Amortization of restricted stock				237			237
Foreign currency translation					(583)		(583)
Preferred stock dividends			134			(509)	(375)
Conversion of Series C preferred stock	(20,000)	34	19,966				
Net income						22,781	22,781
Balance at December 31, 2005	\$	\$884	\$436,636	\$(235)	\$ 7,616	\$ (98,176)	\$346,725

(1) See footnote A, Restatement of Historical Financial Statements

Table of Contents

Newpark Resources, Inc.

Consolidated Statements of Cash Flows

Year Ended December 31,

(In thousands)	2005 (Restated)	2004 (Restated)	2003 (Restated)
Cash flows from operating activities:			
Net income	\$ 22,781	\$ 5,497	\$ 1,644
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	22,341	18,106	18,765
Amortization	2,140	1,649	1,660
Stock-based compensation expense	741	587	1,095
Provision for deferred income taxes	10,509	3,705	350
Provision for doubtful accounts	843	800	1,000
(Gain) loss on sale of assets	(1,383)	(78)	249
Impairment losses		3,399	350
Change in assets and liabilities, net of acquisitions:			
Decrease (increase) in restricted cash		8,029	(8,029)
Increase in accounts and notes receivable	(41,330)	(7,886)	(978)
Increase in inventories	(4,763)	(10,307)	(21,550)
(Increase) decrease in other assets	(4,649)	(2,400)	3,728
Increase (decrease) in accounts payable	8,093	(1,329)	5,128
Increase in accrued liabilities and other	13,773	1,750	4,140
Net cash provided by operations	29,096	21,522	7,552
Cash flows from investing activities:			
Capital expenditures	(35,784)	(21,683)	(22,726)
Proceeds from sale of property, plant and equipment	1,471	395	683
Insurance proceeds from property, plant and equipment claim	1,365		
Acquisitions, net of cash acquired	(881)		
Payment received on former shipyard operation note receivable		6,328	
Net cash used in investing activities	(33,829)	(14,960)	(22,043)
Cash flows from financing activities:			
Net borrowings (payments) on lines of credit	8,969	(15,442)	19,097
Principal payments on notes payable and long-term debt	(13,242)	(5,049)	(3,768)
Long-term borrowings	4,664	15,558	
Proceeds from exercise of stock options and ESPP	5,199	1,028	303
Tax benefit from exercise of stock options	856	82	
Preferred stock dividends paid in cash	(375)	(675)	
Net cash provided by (used in) financing activities	6,071	(4,498)	15,632
Effect of exchange rate changes	(371)	266	826

Net increase in cash and cash equivalents	967	2,330	1,967
Cash and cash equivalents at beginning of year	7,022	4,692	2,725
Cash and cash equivalents at end of year	\$ 7,989	\$ 7,022	\$ 4,692

See Accompanying Notes to Consolidated Financial Statements

56

Table of Contents

NEWPARK RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Restatement of Historical Financial Statements

In early April 2006, the internal auditor of Newpark Resources, Inc. (the Company) advised the Audit Committee of the Company's Board of Directors that he had concerns regarding the propriety of several vendor invoices in the aggregate amount of approximately \$1.75 million. This amount had been paid in the latter part of calendar 2005 by one of the Company's subsidiaries, Soloco, Inc., to a third-party with whom Soloco had a long-term commercial relationship (the Third Party). The internal auditor advised the Audit Committee that Soloco could not substantiate the Third Party's delivery of the property to which the invoices pertained. Separately, the newly appointed Chief Executive Officer of the Company conducted several preliminary interviews resulting in what appeared to confirm the internal auditor's concerns. The Audit Committee determined it was appropriate to engage outside independent counsel to conduct an investigation of the circumstances related to these invoices. As directed by the Audit Committee, the investigation focused initially on whether Soloco improperly paid these and other invoices and if so whether the payments had been made unknowingly or intentionally. The Audit Committee also asked the special investigation team (comprised of outside special counsel, an investigative firm and a forensic accounting group retained by special counsel) to determine whether there was credible evidence suggesting that any members of the Company's management group had had prior knowledge of or participated in the processing, approval or payment of the invoices. Finally, the Audit Committee asked outside special counsel to review any other material financial transactions between Soloco and the Third Party or other vendors, to determine whether the financial statements also had failed to properly reflect those transactions or whether those transactions had been on commercial terms that were not at arm's-length.

During the course of the next several months, outside counsel and the remainder of the investigative team conducted a thorough investigation of these matters. The team conducted extensive interviews of employees and others potentially involved in or potentially having material information related to the matters under investigation. During the investigation, the team concluded that a number of transactions between Soloco and the Third Party lacked substantial commercial and economic substance. The Audit Committee agreed. Accordingly, it was determined that these transactions had not been properly recorded in the consolidated financial statements for those periods in which the transactions were conducted and, in certain instances, in subsequent periods as well, since the value assigned to the initial transactions were initially recorded as assets and amortized to operations in subsequent accounting periods. These transactions can be summarized as follows:

Soloco purchased licenses in 1994 (\$1.8 million), 1996 (\$4.5 million) and 2002 (\$1.8 million) for the exclusive rights to use, distribute and sell the Third Party's products (at first, domestic distribution rights and later, international distribution rights). At the date it acquired those rights, the Company capitalized these intangible assets and assigned estimated useful lives to amortize the related costs over the duration of the license agreements. However, the investigative team found credible evidence that the amortization periods assigned to the 1994 and 1996 licenses exceeded the duration of the licenses' underlying patents. Accordingly, the amortization period has been corrected to correspond to the expiration in 2001 of the underlying patents. With respect to the 2002 license, the investigative team found credible evidence that this transaction lacked substantial commercial and economic substance. Accordingly, the Company has concluded that previously capitalized costs should not have been capitalized. These costs have now been written off as of 2002. In addition, amortization charges originally charged to

Table of Contents

operations for those rights have been reversed in the restated consolidated financial statements.

Soloco entered into purported credit sale transactions with the Third Party at various times in 2002 and 2003. The investigative team found credible evidence that, in certain instances, the product was never shipped or was subject to repurchase, and therefore, did not meet the criteria to record a sale. Accordingly, revenue of \$900,000 in 2003 and \$3.3 million in 2002 should not have been recognized. Those amounts have been reversed in the restated consolidated financial statements.

Soloco and the Third Party entered into numerous other transactions and the investigative team found credible evidence that these transactions lacked commercial and economic substance. These transactions included:

- o Soloco sold certain products located in Venezuela in 2000 to the Third Party and recorded a promissory note receivable for \$2.4 million.
- o Soloco paid \$1.6 million to the Third Party in 2004 to reacquire certain distribution rights in South America and the related costs were capitalized and amortized over the estimated useful life of the rights.
- o Soloco made payments to the Third Party for the purchase of certain products from the Third Party in 2004 (\$1.8 million) and 2005 (\$2.0 million), which it accounted for as fixed assets to be depreciated over their estimated useful lives. Soloco also made payments to the Third Party for the purchase of other products, which were expensed in the period that they were made, totaling \$700,000 in 2004 and \$500,000 in 2005. The investigative team also provided evidence that these assets and other products (collectively the Purported Purchases) were not received by Soloco. The investigative team found additional evidence that the payments for the above mentioned South American distribution rights and the Purported Purchases appeared to be the source of the collections received in 2004 and 2005 on the credit sale transactions and the Venezuelan note described above.

The Company has restated the financial statements to reverse the effects of these non-substantive cash transactions.

Following the initiation of the investigation in April 2006, the Third Party delivered property to the Company totaling \$1.8 million.

In the meantime, given the recent focus by the Securities and Exchange Commission and the financial markets on the timing and pricing of stock option grants, the Audit Committee instructed special counsel to review the Company's practices in granting stock options. The investigation revealed that a substantial number of the Company's stock options granted between 1998 and 2003 had been dated and priced in a manner inconsistent with the terms of the stock option plan.

The terms of the plan required issuance and pricing of the options as of the date that the Compensation Committee took action to approve their issuance, while in many instances, the options were assigned an exercise price based on an earlier date and at a lower price than what the exercise price would have been if the actual date of the Compensation Committee action had been used. Because the prices at the originally stated grant dates were lower than the prices on the actual dates of the authorization, the Company determined that it should have recognized material amounts of stock-based compensation expense which were not previously accounted for in the previously issued consolidated financial statements.

Table of Contents

In connection with those instances in which the exercise price of stock options was established based on a stated grant date that was different from the actual authorization date, the Company has restated its historical consolidated financial statements to record an increase in stock-based compensation expense over the related vesting period for the intrinsic value at the actual grant date.

Summarized below are the effects of the restatement for the items noted above on previously reported consolidated net income. Miscellaneous accounting adjustments in the following table principally include differences that were identified during audits of the Company and which had not been previously recorded because the Company previously had determined these items were individually and in the aggregate immaterial to the financial statements. In conjunction with the restated financial statements the Company corrected these items by recording them in the periods to which they were attributable.

Increase (Decrease)	2005	2004	2003	1998 through 2002
Matters related to intangible assets	\$ 731,584	\$ 653,425	\$ 627,372	\$ (4,984,462)
Matters related to purported credit sales to Third Party			(487,500)	(2,187,300)
Matters related to transactions that lacked commercial and economic substance	1,046,811	749,663		(2,370,000)
Stock-based compensation expense ⁽¹⁾	(203,083)	(256,100)	(818,775)	(9,311,900)
Miscellaneous accounting adjustments	(486,135)	(309,158)	70,735	(589,030)
Total adjustment to income (loss) before provision for income taxes	1,089,177	837,830	(608,168)	(19,442,692)
Income tax impact of restatement adjustments	(447,779)	(296,881)	175,816	6,736,226
Total adjustments to net income	\$ 641,398	\$ 540,949	\$(432,352)	\$(12,706,466)

(1) The effects of the restatement for stock-based compensation expense for years prior to 2003 are as follows: 2002 \$1,413,418; 2001 \$1,941,721; 2000 \$2,699,768; 1999 - \$1,924,592; and 1998 \$1,332,401.

Following is a presentation of the effects of the restatement adjustments on the Company's consolidated balance sheets as of December 31, 2005 and 2004, and its consolidated statements of income and consolidated statements of cash flows for the fiscal years ended December 31, 2005, 2004 and 2003:

Table of Contents

Newpark Resources, Inc.
Consolidated Balance Sheet
Year Ended December 31, 2005

(In thousands, except share data)	As Previously Reported	Restated
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,989	\$ 7,989
Trade accounts receivable, less allowance of \$804 at December 31, 2005	139,194	137,174
Notes and other receivables	12,623	12,623
Inventories	86,299	88,731
Deferred tax asset	16,231	16,231
Prepaid expenses and other current assets	13,448	13,448
Total current assets	275,784	276,196
Property, plant and equipment, at cost, net of accumulated depreciation	239,774	238,409
Goodwill	116,841	116,841
Other intangible assets, net of accumulated amortization	18,199	12,809
Other assets	7,301	7,039
	\$657,899	\$651,294
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Foreign bank lines of credit	\$ 10,890	\$ 10,890
Current maturities of long-term debt	12,696	12,696
Accounts payable	47,371	47,371
Accrued liabilities	39,803	40,731
Total current liabilities	110,760	111,688
Long-term debt, less current portion	185,933	185,933
Deferred tax liability	8,031	4,211
Other noncurrent liabilities	2,737	2,737
Stockholders equity:		
Common Stock, \$0.01 par value, 100,000,000 shares authorized, 88,436,112 shares outstanding at December 31, 2005	884	884
Paid-in capital	428,393	436,636
Unearned restricted stock compensation	(235)	(235)
Accumulated other comprehensive income	7,616	7,616
Retained deficit	(86,220)	(98,176)
Total stockholders equity	350,438	346,725

\$657,899

\$651,294

60

Table of Contents

Newpark Resources, Inc.

Consolidated Balance Sheet

Year Ended December 31, 2004

(In thousands, except share data)	As Previously Reported	Restated
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,022	\$ 7,022
Trade accounts receivable, less allowance of \$3,260 at December 31, 2004	100,587	100,587
Notes and other receivables	7,321	6,265
Inventories	84,044	84,044
Deferred tax asset	12,501	12,501
Prepaid expenses and other current assets	13,275	13,275
Total current assets	224,750	223,694
Property, plant and equipment, at cost, net of accumulated depreciation	210,514	208,789
Goodwill	117,414	117,414
Deferred tax asset	4,063	9,581
Other intangible assets, net of accumulated amortization	15,355	9,770
Other assets	18,018	18,123
	\$ 590,114	\$ 587,371
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Foreign bank lines of credit	\$ 8,017	\$ 8,017
Current maturities of long-term debt	5,031	5,031
Accounts payable	38,822	38,822
Accrued liabilities	26,875	27,441
Total current liabilities	78,745	79,311
Long-term debt, less current portion	186,286	186,286
Other noncurrent liabilities	2,118	2,118
Stockholders equity:		
Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, 80,000 shares outstanding at December 31, 2004	20,000	20,000
Common Stock, \$0.01 par value, 100,000,000 shares authorized, 84,021,351 shares outstanding at December 31, 2004	840	840
Paid-in capital	402,248	411,537
Unearned restricted stock compensation	(472)	(472)
Accumulated other comprehensive income	8,199	8,199
Retained deficit	(107,850)	(120,448)

Total stockholders equity	322,965	319,656
	\$ 590,114	\$ 587,371

Table of ContentsNewpark Resources, Inc.
Consolidated Statement of Income
Year Ended December 31, 2005

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$557,038	\$555,018
Cost of revenues	498,181	495,063
	58,857	59,955
General and administrative expenses	9,537	9,545
Provision for uncollectible accounts	843	843
Operating income	48,477	49,567
Foreign currency exchange gain	(521)	(521)
Interest and other income	(158)	(158)
Interest expense	16,155	16,155
Income before income taxes	33,001	34,091
Provision for income taxes	10,862	11,310
Net income	22,139	22,781
Less: Preferred stock dividends and accretion	509	509
Net income applicable to common and common equivalent shares	\$ 21,630	\$ 22,272
Income per common and common equivalent share:		
Basic	\$ 0.25	\$ 0.26
Diluted	\$ 0.25	\$ 0.26

Table of ContentsNewpark Resources, Inc.
Consolidated Statement of Income
Year Ended December 31, 2004

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$433,422	\$433,422
Cost of revenues	399,015	398,167
	34,407	35,255
General and administrative expenses	9,384	9,394
Provision for uncollectible accounts	800	800
Impairment losses	3,399	3,399
Operating income	20,824	21,662
Foreign currency exchange gain	(301)	(301)
Interest and other income	(1,345)	(1,345)
Interest expense	14,797	14,797
Income before income taxes	7,673	8,511
Provision for income taxes	2,717	3,014
Net income	4,956	5,497
Less: Preferred stock dividends and accretion	938	938
Net income applicable to common and common equivalent shares	\$ 4,018	\$ 4,559
Income per common and common equivalent share:		
Basic	\$ 0.05	\$ 0.05
Diluted	\$ 0.05	\$ 0.05

Table of ContentsNewpark Resources, Inc.
Consolidated Statement of Income
Year Ended December 31, 2003

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$373,179	\$372,260
Cost of revenues	347,733	347,382
	25,446	24,878
General and administrative expenses	5,772	5,813
Provision for uncollectible accounts	1,000	1,000
Impairment losses	350	350
Operating income	18,324	17,715
Foreign currency exchange gain	(831)	(831)
Interest and other income	(633)	(633)
Interest expense	15,251	15,251
Income before income taxes	4,537	3,928
Provision for income taxes	2,460	2,284
Net income	2,077	1,644
Less: Preferred stock dividends and accretion	1,583	1,583
Net income applicable to common and common equivalent shares	\$ 494	\$ 61
Income per common and common equivalent share:		
Basic	\$ 0.01	\$ 0.00
Diluted	\$ 0.01	\$ 0.00

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Cash Flows

Year Ended December 31, 2005

(In thousands)	As Previously Reported	Restated
Cash flows from operating activities		
Net income	\$ 22,139	\$ 22,781
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	22,924	22,341
Amortization	2,874	2,140
Stock-based compensation expense		741
Provision for deferred income taxes	10,061	10,509
Provision for doubtful accounts	843	843
Gain on sale of assets	(1,383)	(1,383)
Change in assets and liabilities, net of acquisitions:		
Increase in accounts and notes receivable	(42,294)	(41,330)
Increase in inventories	(2,331)	(4,763)
Increase in other assets	(5,016)	(4,649)
Increase in accounts payable	8,093	8,093
Increase in accrued liabilities and other	13,411	13,773
Net cash provided by operations	29,321	29,096
Cash flows from investing activities:		
Capital expenditures	(36,009)	(35,784)
Proceeds from sale of property, plant and equipment	1,471	1,471
Insurance proceeds from property, plant and equipment claim	1,365	1,365
Acquisitions, net of cash acquired	(881)	(881)
Net cash used in investing activities	(34,054)	(33,829)
Cash flows from financing activities:		
Net borrowings on lines of credit	8,969	8,969
Principal payments on notes payable and long-term debt	(13,242)	(13,242)
Long-term borrowings	4,664	4,664
Proceeds from exercise of stock options and ESPP	5,199	5,199
Tax benefit from exercise of stock options	856	856
Preferred stock dividends paid in cash	(375)	(375)
Net cash provided by financing activities	6,071	6,071
Effect of exchange rate changes	(371)	(371)
Net increase in cash and cash equivalents	967	967

Cash and cash equivalents at beginning of year	7,022	7,022
Cash and cash equivalents at end of year	\$ 7,989	\$ 7,989

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Cash Flows

Year Ended December 31, 2004

(In thousands)	As Previously Reported	Restated
Cash flows from operating activities		
Net income	\$ 4,956	\$ 5,497
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	18,168	18,106
Amortization	2,633	1,649
Stock-based compensation expense		587
Provision for deferred income taxes	3,408	3,705
Provision for doubtful accounts	800	800
Gain on sale of assets	(78)	(78)
Impairment losses	3,399	3,399
Change in assets and liabilities, net of acquisitions:		
Decrease in restricted cash	8,029	8,029
Increase in accounts and notes receivable	(2,922)	(7,886)
Increase in inventories	(11,886)	(10,307)
Increase in other assets	(3,463)	(2,400)
Decrease in accounts payable	(1,329)	(1,329)
Increase in accrued liabilities and other	1,592	1,750
Net cash provided by operations	23,307	21,522
Cash flows from investing activities:		
Capital expenditures	(23,468)	(21,683)
Proceeds from sale of property, plant and equipment	395	395
Payment received on former shipyard operation note receivable	6,328	6,328
Net cash used in investing activities	(16,745)	(14,960)
Cash flows from financing activities:		
Net payments on lines of credit	(15,442)	(15,442)
Principal payments on notes payable and long-term debt	(5,049)	(5,049)
Long-term borrowings	15,558	15,558
Proceeds from exercise of stock options and ESPP	1,028	1,028
Tax benefit from exercise of stock options	82	82
Preferred stock dividends paid in cash	(675)	(675)
Net cash used in financing activities	(4,498)	(4,498)
Effect of exchange rate changes	266	266
Net increase in cash and cash equivalents	2,330	2,330

Cash and cash equivalents at beginning of year	4,692	4,692
Cash and cash equivalents at end of year	\$ 7,022	\$ 7,022

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Cash Flows

Year Ended December 31, 2003

(In thousands)	As Previously Reported	Restated
Cash flows from operating activities		
Net income	\$ 2,077	\$ 1,644
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	18,765	18,765
Amortization	2,564	1,660
Stock-based compensation expense		1,095
Provision for deferred income taxes	526	350
Provision for doubtful accounts	1,000	1,000
Loss on sale assets	249	249
Impairment losses	350	350
Change in assets and liabilities, net of acquisitions:		
Increase in restricted cash	(8,029)	(8,029)
Increase in accounts and notes receivable	(1,897)	(978)
Increase in inventories	(21,119)	(21,550)
Decrease in other assets	3,728	3,728
Increase in accounts payable	5,128	5,128
Increase in accrued liabilities and other	4,210	4,140
Net cash provided by operations	7,552	7,552
Cash flows from investing activities:		
Capital expenditures	(22,726)	(22,726)
Proceeds from sale of property, plant and equipment	683	683
Net cash used in investing activities	(22,043)	(22,043)
Cash flows from financing activities:		
Net borrowings on lines of credit	19,097	19,097
Principal payments on notes payable and long-term debt	(3,768)	(3,768)
Proceeds from exercise of stock options and ESPP	303	303
Net cash provided by financing activities	15,632	15,632
Effect of exchange rate changes	826	826
Net increase in cash and cash equivalents	1,967	1,967
Cash and cash equivalents at beginning of year	2,725	2,725
Cash and cash equivalents at end of year	\$ 4,692	\$ 4,692

Table of Contents**B. Summary of Significant Accounting Policies**

Organization and Principles of Consolidation. Newpark Resources, Inc., a Delaware corporation (Newpark), provides integrated fluids management, environmental and oilfield services to the oil and gas exploration and production (E&P) industry, principally in the U.S. Gulf Coast, west Texas, the U.S. Mid-continent, the U.S. Rocky Mountains, Canada, Mexico and areas of Europe and North Africa surrounding the Mediterranean Sea. The consolidated financial statements include the accounts of Newpark and its wholly-owned subsidiaries. Investments in entities in or of which Newpark owns 20 percent to 50 percent and exercises significant influence over operating and financial policies, but does not control and is not the primary beneficiary, are accounted for using the equity method. All material intercompany transactions are eliminated in consolidation. Newpark has reclassified certain amounts previously reported to conform with the presentation at December 31, 2005.

Use of Estimates and Market Risks. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Newpark s estimates used in preparing its consolidated financial statements include, but are not limited to, the following: allowances for product returns in its fluids systems and engineering segment; allowances for doubtful accounts; reserves for inventory obsolescence; fair values used for goodwill impairment testing; and valuation allowances for deferred tax assets.

Newpark s operating results depend primarily on oil and gas drilling activity levels in the markets served, which reflect budgets set by the oil and gas E&P industry. These budgets, in turn, depend on oil and gas commodities pricing, inventory levels and product demand. Oil and gas prices and activity are volatile. This market volatility has a significant impact on Newpark s operating results.

Cash Equivalents. All highly liquid investments with a remaining maturity of three months or less at the date of acquisition are classified as cash equivalents.

Fair Value Disclosures. Newpark s significant financial instruments consist of cash and cash equivalents, receivables, payables and long-term debt. The estimated fair value amounts have been developed based on available market information and appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value. Therefore, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. After this analysis, except as described below, management believes the carrying values of these instruments approximate fair values at December 31, 2005 and 2004.

The estimated fair value of Newpark s Senior Subordinated Notes payable at December 31, 2005 and 2004, based upon available market information, was \$124.5 million and \$125.9 million, respectively, as compared to the carrying amount of \$125.0 million on those dates.

Table of Contents

Accounts Receivable. Newpark's accounts receivable at December 31, 2005 and 2004 includes the following:

(In thousands)	2005 (Restated)	2004
Trade receivables	\$ 113,516	\$ 86,152
Unbilled revenues	24,462	17,695
Gross trade receivables	137,978	103,847
Allowance for doubtful accounts	(804)	(3,260)
Net trade receivables	\$ 137,174	\$ 100,587

The reduction in the allowance for doubtful accounts during 2005 is principally due to the write-off of accounts deemed to be uncollectible, which were previously provided for.

Inventories. Inventories are stated at the lower of cost (principally average and first-in, first-out) or market. Certain costs associated with the acquisition, production and blending of inventory in Newpark's fluids systems and engineering segment are capitalized as a component of the carrying value of the inventory and expensed as a component of cost of revenues as the products are sold.

Property, Plant and Equipment. Property, plant and equipment are recorded at cost. Additions and improvements are capitalized. Maintenance and repairs are charged to expense as incurred. The cost of property, plant and equipment sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the property and related accumulated depreciation accounts, and any gain or loss is credited or charged to income.

For financial reporting purposes, except as described below, depreciation is provided on property, plant and equipment, including assets held under capital leases, by utilizing the straight-line method over the following estimated useful service lives:

Computers, autos and light trucks	2-5 years
Wooden mats	3-5 years
Composite mats	15 years
Tractors and trailers	10-15 years
Machinery and heavy equipment	10-15 years
Owned buildings	20-35 years
Leasehold improvements	lease term, including all renewal options

Newpark computes the provision for depreciation on certain of its E&P waste and NORM disposal assets (the waste disposal assets) and its barite grinding mills using the unit-of-production method. In applying this method, Newpark has considered certain factors which affect the expected production units (lives) of these assets. These factors include obsolescence, periods of nonuse for normal maintenance and economic slowdowns and other events which are reasonably predictable.

Goodwill and Other Intangibles. Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. In accordance with Statement of Financial Accounting Standards (FAS) No. 142, Goodwill and Other Intangible Assets, Newpark performs annual impairment testing of goodwill, with interim testing performed if circumstances warrant. Newpark has performed impairment reviews by reporting unit based on a fair value concept. Newpark's goodwill impairment reviews indicated that Newpark's goodwill was not impaired.

Newpark also has recorded other identifiable intangible assets which were acquired in business combinations or in separate transactions. These other identifiable intangible assets include permits, patents and similar exclusivity arrangements, customer intangibles, trademarks and non-

Table of Contents

complete agreements, which are being amortized over their contractual life of 5 to 17 years on a straight-line basis, except for certain assets acquired in an acquisition in 2002, which are not being amortized. In accordance with FAS 142, Newpark concluded that its permits, operating rights, licenses and trademarks have indefinite lives since it has determined that there are no legal, regulatory, contractual, economic or other factors that would limit the useful life of these intangible assets and Newpark intends to use these intangible assets indefinitely. Newpark's rights under these arrangements continue so long as it is in compliance with the underlying terms of the arrangements. Any period costs of maintaining these intangible assets are expensed as incurred. Each reporting period, Newpark evaluates whether indefinite-lived intangibles have become impaired.

Newpark periodically assesses the recoverability of the unamortized balance of its other intangible assets based on an expected future profitability and undiscounted future cash flows and their contribution to Newpark's overall operation. Should the review indicate that the carrying value is not fully recoverable, the excess of the carrying value over the fair value of the intangibles would be recognized as an impairment loss.

Impairment Losses. Newpark recorded an impairment loss of \$3.4 million in the fourth quarter of 2004 due to the other-than-temporary impairment of an investment in convertible, redeemable preferred stock of a company that owns thermal desorption technology. The company in which Newpark had invested suffered an adverse judgment in a patent case and filed for protection under Chapter 11 bankruptcy proceedings. In the fourth quarter of 2004, the company was forced into conversion of its Chapter 11 proceedings to Chapter 7 bankruptcy proceedings by the plaintiff. With no access to its equipment and the related operating cash flows due to this conversion, the company had to cease its operations in the fourth quarter of 2004. Though Newpark's investment remains collateralized by equipment, an impairment loss was recorded as the recovery of Newpark's investment is considered remote due to the impact of the Chapter 7 proceedings and other actions taken by the plaintiff during the fourth quarter.

The impairment loss in 2003 related to Newpark's evaluation of the net realizable value of assets at its barite grinding facilities in Channelview, Texas that were abandoned after the relocation of these facilities was completed in 2005. The underlying assets were included in the assets of the Fluids Systems and Engineering segment.

Revenue Recognition. The fluids systems and engineering segment recognizes sack and bulk material additive revenues upon shipment of materials. Formulated liquid systems revenues are recognized when utilized or lost downhole while drilling. A return reserve is booked to estimate potential product returns. Engineering and related services are provided to customers at agreed upon hourly or daily rates, and revenues are recognized when the services are performed.

For the environmental services segment, revenues are recognized when Newpark takes title to the waste, which is upon receipt of the waste at its facility. All costs related to the transporting and disposing of the waste received are accrued when that revenue is recognized.

For the mat and integrated services segment, revenues for sales of wooden or composite mats are recognized when title passes to the customer, which is upon shipment or delivery, depending upon the terms of the underlying sales contract.

Revenues in the mat and integrated services segment are generated from both fixed price and unit-priced contracts, which are short-term in duration. The activities under these contracts include site preparation, pit design, construction and drilling waste management, and installation and use of composite or wooden mat systems during an initial period. This initial period includes revenues and costs for site preparation, installation and use of mat systems. Revenues from these

Table of Contents

contracts are recorded using the percentage-of-completion method based on project milestones as specified in the contracts.

At the end of the initial period, the customer, at its option, may extend the use of the mat systems. Revenues related to the extension period are quoted either on a day-rate basis or at a fixed price and are recognized ratably over the agreed extension period. Revenues for services provided to customers at agreed upon hourly or daily rates are recognized when the services are performed. The services typically provided to customers at agreed upon hourly or daily rates include site assessment and regulatory compliance.

All reimbursements by customers of shipping and handling costs are included in revenues. Shipping and handling costs are included in cost of revenues in the income statement.

Income Taxes. Newpark provides for deferred taxes in accordance with FAS 109, Accounting for Income Taxes, which requires an asset and liability approach for measuring deferred tax assets and liabilities due to temporary differences existing at year end using currently enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Stock-Based Compensation. At December 31, 2005, Newpark had stock-based compensation plans, which are described in Note L. Newpark applies Accounting Principles Board Opinion 25 (APB 25) and related Interpretations in accounting for its plans. Accordingly, Newpark has only recognized compensation cost for its stock option plans when the exercise price of the stock option granted was less than the fair value of the underlying common stock at the date of grant. If Newpark had applied the fair value recognition provisions of FAS 123 to its stock-based compensation plans, Newpark's net income (loss) and net income (loss) per share would have been reduced to the pro forma amounts indicated below:

	Year Ended December 31,			
	2005	2004	2003	
(In thousands, except per share data)	(Restated)	(Restated)	(Restated)	
Income applicable to common and common equivalent shares:				
As reported	\$22,272	\$ 4,559	\$ 61	
Add recorded stock compensation expense, net of related taxes	482	379	680	
Deduct stock-based employee compensation expense determined under fair value based method for all awards, net of related taxes	(1,134)	(3,670)	(2,685)	
Pro forma income (loss)	\$21,620	\$ 1,268	\$(1,944)	
Earnings (loss) per share:				
Basic	As reported	\$ 0.26	\$ 0.05	\$ 0.00
	Pro forma	\$ 0.25	\$ 0.02	\$ (0.02)
Diluted	As reported	\$ 0.26	\$ 0.05	\$ 0.00
	Pro forma	\$ 0.25	\$ 0.02	\$ (0.02)

During the year ended December 31, 2004, Newpark modified the terms of non-director and non-executive officer stock options to accelerate the vesting of out-of-the-money options in order to minimize the expense of stock options in future financial statements due to the required future adoption of FAS 123(R). This resulted in a decrease of \$896,000 in the pro forma after-tax expense that otherwise would have been reported for 2005 presented above and

also resulted in an increase of \$1.7 million in the pro forma after-tax expense for 2004 presented above.

Table of Contents

All recorded and pro forma compensation cost associated with stock-based compensation that does not include performance criteria is attributed to expense on the straight-line method over the period the compensation is earned.

Foreign Currency Transactions and Derivative Financial Instruments. The majority of Newpark's transactions are in U.S. dollars; however, Newpark's Canadian and Italian subsidiaries maintain their accounting records in the respective local currency. These currencies are converted to U.S. dollars with the effect of the foreign currency translation reflected in accumulated other comprehensive income, a component of stockholders' equity, in accordance with FAS 52 and FAS 130, Reporting Comprehensive Income. Foreign currency transaction gains (losses), if any, are credited or charged to income. Newpark recorded net transaction gains totaling \$521,000, \$301,000 and \$831,000 in 2005, 2004 and 2003, respectively. At December 31, 2005 and 2004, cumulative foreign currency translation gains related to foreign subsidiaries reflected in stockholders' equity amounted to \$7.6 million and \$8.2 million, respectively. At December 31, 2005, Newpark's foreign subsidiaries had net assets of approximately \$39.6 million.

During the quarter ended March 31, 2005, Newpark's Canadian subsidiary committed to purchase approximately \$2.0 million of barite from one of its U.S. subsidiaries and Newpark entered into a foreign currency forward contract arrangement to reduce the exposure to foreign currency fluctuations related to this commitment. The forward contract requires that the Canadian subsidiary purchase approximately \$2.0 million U.S. dollars at a contracted exchange rate of 1.2496 over a two year period. At December 31, 2005, the fair value of this forward contract represents a loss of approximately \$85,000. Newpark accounts for this forward contract on a mark-to-market basis with the impact reported in net foreign exchange gain.

New Accounting Standards. In December 2004, the FASB issued FAS 123 (revised 2004), Share-Based Payment, (FAS 123(R)) which is a revision of FAS 123, Accounting for Stock-Based Compensation. FAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FAS 95, Statement of Cash Flows. Generally, the approach in FAS 123(R) is similar to the approach described in FAS 123. However, FAS 123(R) requires that all share-based payments to employees, including grants of employee stock options, be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. FAS 123(R) permits adoption of its requirements using one of two methods: (1) a modified prospective method in which compensation cost is recognized beginning with the effective date of FAS 123(R) (a) based on the requirement of FAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of FAS 123 for all awards granted prior to the effective date of FAS 123(R) that remain unvested on the effective date; and (2) a modified retrospective method which includes the requirements of the modified prospective method previously described, but also permits restatement of prior periods based on the amounts previously reported in pro forma disclosures under FAS 123. Newpark currently plans to adopt FAS 123(R) using the modified prospective method and to continue using the Black-Scholes option-pricing model to estimate the fair value of its stock options. On April 14, 2005, the Securities and Exchange Commission announced amended compliance dates for FAS 123(R) and the rules now require Newpark to adopt FAS 123(R) starting with its first quarter of its fiscal year beginning January 1, 2006.

As permitted by FAS 123, through December 31, 2005, Newpark accounted for stock-based compensation using APB 25's intrinsic value method and, as such, generally only recognized compensation cost for its stock option plans when the exercise price of the stock option granted was less than the fair value of the underlying common stock at the date of grant. Accordingly, the adoption of FAS 123(R) may have a material impact on Newpark's results of operations. However, the ultimate impact of adoption of FAS 123(R) cannot be predicted because it will depend on levels of share-based payments granted in the future. If Newpark had adopted FAS 123(R) in prior periods, the impact would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and earnings per share previously disclosed in this note under the heading Stock-Based Compensation.

Table of Contents

In November 2004, the FASB issued FAS 151, Inventory Costs-an amendment of ARB No. 43, Chapter 4, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). It requires that these items be recognized as current-period charges regardless of whether they meet a criterion of so abnormal. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Newpark adopted FAS 151 for inventory costs effective January 1, 2006. Management does not expect adoption of FAS 151 to have a material impact on Newpark's financial results.

C. Acquisitions

On April 18, 2005, Newpark acquired OLS Consulting Services, Inc. (OLS) in exchange for a cash payment of \$1.3 million, including \$400,000 reported in general and administrative expenses, which was allocated to the settlement of litigation described in Note O. The principal assets of OLS included patents licensed to The Loma Company, LLC (LOMA) for use in the manufacture of composite mats, its 51% membership interest in LOMA and a note receivable from LOMA. As a result of the acquisition of OLS, Newpark, through two of its subsidiaries, owns all of the outstanding equity interests in LOMA.

The acquisition of OLS and consolidation of LOMA were accounted for following the principles of FAS 141. The purchase price was allocated to the net assets of OLS and LOMA based on estimates of fair value at the date of acquisition. The effect on Newpark's consolidated balance sheet was as follows (in thousands):

Current assets, net of cash acquired	\$ 467
Property, plant and equipment	15,660
Intangible assets - patents (15 year weighted average life)	4,642
Accrued liabilities	(21)
Current and long-term debt	(6,166)
Deferred tax liability	(37)
Notes and other receivables	(567)
Other assets	(13,097)
Cash purchase price, net of cash acquired	 \$ 881

Prior to the acquisition of OLS in 2005, management had determined that Newpark was the primary beneficiary of LOMA. However, due to the ongoing dispute and pricing litigation discussed in Note O, Newpark did not have access to and was unable to obtain current and reliable financial information for LOMA as of and for the period ended December 31, 2004. In addition, substantially all of the operating activity of LOMA was with Newpark or one of its wholly-owned subsidiaries and this activity would have been eliminated in consolidation. Therefore, Newpark accounted for its investment in LOMA on the cost method as of December 31, 2004. At December 31, 2004, Newpark's investment in LOMA was \$11.4 million, including \$10.2 million in receivables recorded in connection with the favorable judgment in the pricing dispute, which was net of an allowance of approximately \$6.8 million. This receivable was included in other assets as of December 31, 2004. The recorded value of the receivable was net of any allowances for amounts deemed to be uncollectible from LOMA in the future. In 2004, in connection with recording this receivable, Newpark recorded net reductions to inventory of \$3.4 million and to property, plant and equipment of \$5.2 million. These reductions were made to reduce mat costs to the amounts determined as appropriate by the state court judgment, as opposed to the amounts originally invoiced by LOMA.

Table of Contents**D. Goodwill and Other Intangibles**

Changes in the carrying amount of goodwill by segment are as follows:

(In thousands)	Environ- mental Services	Fluid Systems & Engin- eering	Mat and Integrated	Total
Balance at January 1, 2003	\$61,785	\$39,030	\$9,912	\$110,727
Goodwill adjustments for final purchase price allocation of 2002 acquisition		1,774		1,774
Effects of foreign currency	811	2,557		3,368
Balance at December 31, 2003	62,596	43,361	9,912	115,869
Effects of foreign currency	330	1,215		1,545
Balance at December 31, 2004	62,926	44,576	9,912	117,414
Effects of foreign currency	155	(728)		(573)
Balance at December 31, 2005	\$63,081	\$43,848	\$9,912	\$116,841

Other intangible assets consist of the following:

(In thousands)	Amortization Period	December 31, 2005 (Restated)			December 31, 2004 (Restated)		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Patents and exclusivity agreements	15 17 years	\$11,274	\$4,590	\$6,684	\$6,709	\$3,421	\$3,288
Permits, operating rights and licenses	Non-amortizing	4,471		4,471	4,491		4,491
Customer relationships	10 years	1,251	412	839	1,243	299	944
Noncompete agreements	5 years	503	450	53	575	399	176
Trademarks	Non-amortizing	762		762	871		871
		\$18,261	\$5,452	\$12,809	\$13,889	\$4,119	\$9,770

All of Newpark's intangible assets are subject to amortization in accordance with FAS 142, except for the permits, operating rights, licenses and trademarks, which are deemed to have an indefinite life. Total amortization expense (restated) for the years ended December 31, 2005, 2004 and 2003 related to other intangibles was \$1,431,000, \$699,000 and \$825,000, respectively. The increase in the gross carrying amount of patents and exclusivity agreements is primarily attributable to patents acquired as a result of the acquisition described in Note C.

Estimated future amortization expense (restated) for the years ended December 31 is as follows (in thousands):

2006	\$919
2007	\$908
2008	\$892
2009	\$837
2010	\$751

Table of Contents**E. Inventory**

Newpark's inventory consisted of the following items at December 31, 2005 and 2004:

(In thousands)	2005 (Restated)	2004
Finished Goods:		
Composite mats	\$10,030	\$12,824
Raw materials and products:		
Logs	6,084	5,121
Drilling fluids raw materials and products	69,621	63,602
Supplies	279	287
Other	2,717	2,210
Total raw materials and products	78,701	71,220
Total inventory	\$88,731	\$84,044

F. Property, Plant and Equipment

Newpark's investment in property, plant and equipment at December 31, 2005 and 2004 is summarized as follows:

(In thousands)	2005 (Restated)	2004 (Restated)
Land	\$ 16,906	\$ 16,102
Buildings and improvements	63,940	63,522
Machinery and equipment	206,212	185,805
Construction in progress	19,393	8,878
Mats	46,384	36,239
Other	2,866	3,613
	355,701	314,159
Less accumulated depreciation	(117,292)	(105,370)
	\$ 238,409	\$ 208,789

Table of Contents**G. Financing Arrangements**

Financing arrangements consisted of the following at December 31, 2005 and 2004:

(In thousands)	2005	2004
Senior subordinated notes	\$125,000	\$125,000
Domestic bank lines of credit	41,573	39,633
Barite facilities financing	13,125	14,479
Foreign bank lines of credit	11,116	8,017
Mexico mat financing	5,124	6,339
Loma financing	4,402	
Other, principally capital leases secured by composite mats, machinery and equipment with a total net book value of \$10.4 million at December 31, 2005, payable through 2011, with interest at 4.5% to 6.0%	9,179	5,866
	209,519	199,334
Less: current portion	(23,586)	(13,048)
Long-term portion	\$185,933	\$186,286

On December 17, 1997, Newpark issued \$125 million of unsecured Senior Subordinated Notes (the Notes), which mature on December 15, 2007. Interest on the Notes accrues at the rate of 8-5/8% per annum and is payable semi-annually on each June 15 and December 15, commencing June 15, 1998. The Notes may be redeemed by Newpark, in whole or in part, at a premium after December 15, 2002. The Notes are subordinated to all senior indebtedness, as defined in the subordinated debt indenture, including Newpark's bank revolving credit facility.

The Notes are guaranteed by substantially all domestic operating subsidiaries of Newpark (the Subsidiary Guarantors). The guarantee obligations of the Subsidiary Guarantors (which are all direct or indirect wholly owned subsidiaries of Newpark) are full, unconditional and joint and several. See Note S.

Newpark has redeemed the Notes subsequent to December 31, 2005 as further described in Note T.

On February 25, 2004, Newpark converted its bank credit facility into an asset-based facility (the Credit Facility) that is secured by substantially all of its domestic assets and the assets of its domestic subsidiaries. The Credit Facility, as amended, matures on June 25, 2007. Under the Credit Facility, Newpark can borrow up to \$15 million in term debt and \$70 million in revolving debt, for a total of \$85 million. At December 31, 2005, \$8.8 million was outstanding under the term portion of the Credit Facility. Eligibility under the revolving portion of the Credit Facility is based on a percentage of Newpark's eligible consolidated accounts receivable and inventory as defined in the Credit Facility. At December 31, 2005, the maximum amount Newpark could borrow under the revolving portion of the Credit Facility was \$59.7 million. At December 31, 2005, \$11.7 million in letters of credit were issued and outstanding and \$32.8 million was outstanding under the revolving portion of the Credit Facility, leaving \$15.2 million of availability at that date. The Credit Facility bears interest at either a specified prime rate (7.25% at December 31, 2005), or the three-month LIBOR rate (4.53% at December 31, 2005), in each case plus a spread determined quarterly based upon a fixed charge coverage ratio. The weighted average interest rates on the outstanding balances under the respective credit facilities for the years ended December 31, 2005 and 2004 were 6.5% and 4.7%, respectively.

During 2004, Newpark closed a \$15 million project financing on its four barite mills (Barite Facilities Financing). Proceeds from this transaction were used to reduce advances under the

Table of Contents

Credit Facility. The Barite Facilities Financing is a \$15 million term loan facility which bears interest at one-month LIBOR plus 3.75% (8.04% at December 31, 2005) payable monthly and matures August 1, 2009. Principal payments are required monthly based on an amortization period of 12 years, with a balloon payment at the maturity date. The Barite Facilities Financing is collateralized by Newpark's four barite facilities.

The Credit Facility and the Barite Facilities Financing contain a fixed charge coverage ratio covenant and a tangible net worth covenant. As of December 31, 2005, Newpark was in compliance with the covenants contained in these facilities, as amended. The Notes do not contain any financial covenants; however, if Newpark does not meet the financial covenants of the Credit Facility and is unable to obtain an amendment from the banks, Newpark would be in default of the Credit Facility which would cause the Notes to be in default and immediately due. The Notes and the Credit Facility also contain covenants that significantly limit the payment of dividends on Newpark's common stock.

During 2005, Newpark entered into a secured financing facility which provides up to \$8 million in financing for wooden mat additions. At December 31, 2005, Newpark had borrowed \$4.1 million under the facility. Principal payments totaling approximately \$97,000 are required monthly for 48 months. Interest based on one-month LIBOR plus 3.45% is also payable monthly.

During 2004, Newpark also closed financing arrangements on \$6.8 million in support of a new mat operation in Mexico (Mexico Mat Financing). The Mexico Mat Financing consists of two term loan facilities totaling \$6.8 million, bears interest at 7% payable monthly and matures August 1, 2007. Principal payments are required monthly based on an amortization period of 5 years, with a balloon payment at the maturity date. The Mexico Mat Financing is collateralized by the composite mats of Newpark's Mexican operation.

AVA, S.p.A. (AVA), Newpark's drilling fluids subsidiary headquartered in Rome, Italy, maintains its own credit arrangements, consisting primarily of lines of credit with several banks, with the lines renewed on an annual basis. Advances under these credit arrangements are typically based on a percentage of AVA's accounts receivable or firm contracts with certain customers. The weighted average interest rate under these arrangements was approximately 5.6% at December 31, 2005. At December 31, 2005 and 2004, AVA had a total of \$11.1 million and \$8.1 million, respectively, outstanding under these facilities. Newpark does not provide a corporate guarantee of AVA's debt.

At December 31, 2004, the Company issued a guarantee for certain lease obligations of a joint venture which supplied a portion of its wooden mats on a day rate leasing basis (MOCTX). The amount of this guarantee as of December 31, 2004 was \$4.2 million. In January 2005, MOCTX was dissolved and Newpark took possession of the underlying assets and assumed the obligations under the leases. Newpark recorded these leases as capital leases in accordance with FAS 13. At December 31, 2005, \$1.6 million was outstanding under these capital leases.

As a result of the acquisition described in Note C, Newpark acquired the debt obligations of LOMA (the Loma financing). These obligations require monthly escrow payments of principal of \$147,000, interest and letter of credit fees payable monthly based on a variable rate, which approximated 6.5% at December 31, 2005, and mature in December 2008. At December 31, 2005, approximately \$4.4 million was outstanding under these obligations. In addition, at December 31, 2005, Newpark had issued a \$4.5 million guarantee of these debt obligations. This guarantee is secured by a letter of credit issued under the Credit Facility and declines with each principal payment.

For the years ended December 31, 2005, 2004 and 2003, Newpark incurred interest cost of \$16,915,000, \$15,120,000 and \$15,945,000, respectively, of which \$760,000, \$323,000 and \$694,000, respectively, was capitalized on qualifying construction projects.

Table of Contents

Scheduled maturities of long-term debt are \$23,586,000 in 2006, \$172,189,000 in 2007, \$3,473,000 in 2008, \$10,111,000 in 2009 and \$91,000 in 2010.

H. Income Taxes

The provision for income taxes charged to operations was as follows:

(In thousands)	Year Ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Current tax expense (benefit):			
U.S. Federal	\$ 366	\$ 7	\$
State	281	163	38
Foreign	154	(861)	1,896
Total current	801	(691)	1,934
Deferred tax expense (benefit):			
U.S. Federal	10,141	3,403	244
State	(96)	302	21
Foreign	464		85
Total deferred	10,509	3,705	350
Total provision	\$11,310	\$3,014	\$2,284

Income (loss) before income taxes was as follows:

(In thousands)	Year Ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
U.S.	\$31,140	\$10,378	\$ (293)
Other than U.S.	2,951	(1,867)	4,221
Income before income taxes	\$34,091	\$ 8,511	\$3,928

The effective income tax rate is reconciled to the statutory federal income tax rate as follows:

	Year Ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Income tax expense at statutory rate	35.0%	35.0%	35.0%
Nondeductible expenses	2.7	9.6	15.6
Higher rates on earnings (losses) of foreign operations	0.6	(0.3)	10.7
State taxes, net	0.5	5.5	0.5
Benefit of foreign interest deductible in U.S.	(1.9)	(5.0)	(7.1)

Edgar Filing: NEWPARK RESOURCES INC - Form 10-K/A

Deferred taxes no longer required	(1.3)	(5.9)	
Increase (decrease) in valuation allowance	(0.1)	1.5	
Other	(2.3)	(5.0)	3.4
Total income tax expense	33.2%	35.4%	58.1%

Table of Contents

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities at December 31, 2005 and 2004 are as follows:

(In thousands)	2005 (Restated)	2004 (Restated)
Deferred tax assets:		
Net operating losses	\$ 60,255	\$67,167
Accruals not currently deductible	3,188	3,914
Bad debts	322	777
Alternative minimum tax credits	2,714	2,348
Foreign tax credits	1,635	645
All other	3,730	3,888
Total deferred tax assets	71,844	78,739
Valuation allowance	(11,045)	(9,565)
Total deferred tax assets, net of allowances	60,799	69,174
Deferred tax liabilities:		
Accelerated depreciation and amortization	48,800	43,169
All other	(21)	3,923
Total deferred tax liabilities	48,779	47,092
Total net deferred tax assets	\$ 12,020	\$22,082

For U.S. federal income tax purposes, Newpark has net operating loss carryforwards (NOLs) of approximately \$135.9 million (restated) (net of amounts disallowed pursuant to IRC Section 382) that, if not used, will expire in 2018 through 2023. Newpark also has approximately \$2.7 million of alternative minimum tax credit carryforwards, which are not subject to expiration and are available to offset future regular income taxes subject to certain limitations. Additionally, for state income tax purposes, Newpark has NOLs of approximately \$235 million available to reduce future state taxable income. These NOLs expire in varying amounts beginning in year 2006 through 2024.

At December 31, 2005, Newpark has recognized a net deferred tax asset of \$12.0 million (restated), the realization of which is dependent on Newpark's ability to generate taxable income in future periods. Management believes that its estimate of its ability to generate future earnings based on current market outlook supports recognition of this amount. Under FAS 109, a valuation allowance must be established to offset a deferred tax asset if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. At December 31, 2005 and December 31, 2004, Newpark has recorded a valuation allowance for the net benefit of all state NOLs.

In 2005, deferred tax expense included a decrease in the valuation allowance for utilization of deferred tax assets of \$46,000. In 2004, the Mexican NOL was fully reserved in the allowance. The decrease in 2005 is to reflect the utilization of a portion of the NOL against current Mexican earnings. The valuation allowance increased \$1,480,000 overall, net of the decrease for Mexican NOLs, due to an increase of \$644,000 for 65% of the foreign tax credits generated during 2005 and an increase of \$882,000 for an adjustment to state tax NOLs.

In 2004, deferred tax expense included an increase in the valuation allowance for deferred tax assets of \$124,000. This increase was related to Mexican NOLs, the realization of which is dependent upon projection of future Mexican taxable income. FAS 109 requires several years of positive historical earnings in order to consider projected earnings for purposes of valuing deferred tax assets. Because the Mexican operation began in 2004 and had no historical earnings track record, Newpark provided a valuation allowance of \$124,000 against the Mexican NOLs

generated in 2004. In 2004 the valuation allowance declined overall, net of the increase for Mexican NOLs, due to state tax NOLs that were utilized during 2004.

Table of Contents

As of December 31, 2005, Newpark had a reserve for tax exposure items totaling \$1.3 million related to Canadian tax matters. This amount is expected to be paid in 2006 and is included in current accrued liabilities. During 2005, the net change in this reserve was a reduction of \$631,000. The net change included a reduction of \$1.3 million in connection with the favorable progress of discussions with the Canadian taxing authorities. This reduction was partially offset by an increase in U.S. tax reserves of \$620,000 for Canadian withholding taxes.

Unremitted foreign earnings reinvested abroad upon which deferred income taxes have not been provided aggregated approximately \$3.4 million at December 31, 2005. Newpark has the ability and intent to leave these foreign earnings permanently reinvested abroad.

I. Preferred Stock

Newpark has been authorized to issue up to 1,000,000 shares of Preferred Stock, \$0.01 par value. Changes in outstanding preferred stock were as follows:

(dollars in thousands, except per share amounts)	Years Ended December 31,					
	2005		2004		2003	
	Shares		Shares		Shares	
Outstanding at beginning of year	80,000	\$ 20,000	120,000	\$ 30,000	167,500	\$ 41,875
Shares converted to common stock	(80,000)	(20,000)	(40,000)	(10,000)	(47,500)	(11,875)
Outstanding at end of year			80,000	\$ 20,000	120,000	\$ 30,000
Weighted-average conversion price per share		\$ 5.89		\$ 3.80		\$ 4.31

On June 1, 2000, Newpark completed the sale of 120,000 shares of Series B Convertible Preferred Stock, \$0.01 par value per share (the Series B Preferred Stock), and a warrant (the Series B Warrant) to purchase up to 1,900,000 shares of the Common Stock of Newpark at an exercise price of \$10.075 per share, subject to anti-dilution adjustments. The Series B Warrant has a term of seven years, expiring June 1, 2007. There were no redemption features to the Series B Preferred Stock. The aggregate purchase price for these instruments was \$30.0 million, of which approximately \$26.5 million was allocated to the Series B Preferred Stock and approximately \$3.5 million to the Series B Warrant. On December 28, 2000, Newpark completed the sale of 120,000 shares of Series C Convertible Preferred Stock, \$0.01 par value per share (the Series C Preferred Stock). There were no redemption features to the Series C Preferred Stock. The aggregate purchase price for this instrument was \$30.0 million. The net proceeds from these sales were used to repay indebtedness. No underwriting discounts or commissions were paid in connection with the sales of these securities.

The agreements pursuant to which the Series B and Series C Preferred Stock and the Warrant were issued (the Agreements) require Newpark to use its best efforts to register under the Securities Act of 1933, as amended (the Securities Act), all of the shares of Common Stock issuable upon exercise of the Warrant and 1.5 times the number of shares of Common Stock issuable as of the effective date of the registration statement upon conversion of the Series B and Series C Preferred Stock or as dividends on the Series B and Series C Preferred Stock. Newpark will be required to increase the number of shares registered under the registration statement if the total number of shares of Common Stock issued and issuable under the Warrant and with respect to the Series B and Series C Preferred Stock exceeds 80% of the number of shares then registered. The registration statements currently cover approximately 13.7 million shares of Common Stock.

Cumulative dividends were payable on the Series B and Series C Preferred Stock quarterly in arrears. The dividend rate was 4.5% per annum, based on the stated value of \$250 per share of Series B and Series C Preferred Stock. Dividends payable on the Series B and Series C Preferred

Table of Contents

Stock could be paid at the option of Newpark either in cash or by issuing shares of Newpark's Common Stock that had been registered under the Act. The number of shares of Common Stock of Newpark to be issued as dividends was determined by dividing the cash amount of the dividend otherwise payable by the market value of the Common Stock determined in accordance with the provisions of the certificate relating to the Series B and Series C Preferred Stock. In 2005 and 2004, dividends were paid in cash and in the form of common stock. In 2003, all dividends were paid in the form of common stock.

On April 16, 1999, Newpark issued 150,000 shares of Series A Cumulative Perpetual Preferred Stock, \$0.01 par value per share (the Series A Preferred Stock), and a warrant (the Series A Warrant) to purchase up to 2,400,000 shares of the Common Stock of Newpark at an exercise price of \$8.50 per share, subject to anti-dilution adjustments. The Series A Warrant has a term of seven years, expiring April 15, 2006. The aggregate purchase price for these instruments was \$15.0 million, of which approximately \$12.8 million was allocated to the Series A Preferred Stock and approximately \$2.2 million to the Series A Warrant. The net proceeds from the sale were used to repay indebtedness. No underwriting discounts, commissions or similar fees were paid in connection with the sale of the securities. In 2002, Newpark repurchased all of the outstanding shares of Series A Preferred Stock.

The Series A Warrant and Series B Warrant contain anti-dilution provisions. As of December 31, 2005, the Series A Warrant provided for the right to purchase up to 2,862,580 shares of the Common Stock of Newpark at an exercise price of \$8.50 per share. As of December 31, 2005, the Series B Warrant provided for the right to purchase up to 1,911,836 shares of the Common Stock of Newpark at an exercise price of \$10.01 per share.

In February 2006, the holder of the Series A Warrant elected to execute a cashless exercise of its right to purchase the 2,862,580 shares in exchange for 203,934 shares of Common Stock of Newpark valued at \$9.15 at the time of exercise.

J. Common Stock

Changes in outstanding Common Stock for the years ended December 31, 2005, 2004 and 2003 were as follows:

(In thousands of shares)	2005	2004	2003
Outstanding, beginning of year	84,021	81,073	77,710
Shares issued upon conversion of preferred stock	3,396	2,629	2,754
Shares issued upon exercise of options	935	178	6
Shares issued under employee stock purchase plan	61	75	74
Shares issued for preferred stock dividends	23	66	360
Shares issued (cancelled) under deferred compensation plan			169
Outstanding, end of year	88,436	84,021	81,073

Table of Contents**K. Earnings per Share**

The following table presents the reconciliation of the numerator and denominator for calculating earnings per share in accordance with the disclosure requirements of FAS 128 as follows:

(In thousands, except per share data)	Years Ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Income applicable to common and common equivalent shares	\$22,272	\$ 4,559	\$ 61
Weighted average number of common shares outstanding	85,950	83,655	79,785
Add:			
Net effect of dilutive stock options and warrants	504	237	120
Adjusted weighted average number of common shares outstanding	86,454	83,892	79,905
Income applicable to common and common equivalent shares:			
Basic	\$ 0.26	\$ 0.05	\$ 0.00
Diluted	\$ 0.26	\$ 0.05	\$ 0.00

At December 31, 2005, 2004 and 2003, Newpark had dilutive stock options of 3,615,697, 2,006,427 and 686,648, respectively, which were assumed exercised using the treasury stock method. The resulting net effect of stock options was used in calculating diluted income per share for the periods ended December 31, 2005, 2004 and 2003. Options and warrants to purchase a total of 5,772,000 shares of common stock, at exercise prices ranging from \$7.88 to \$21.00 per share, were outstanding at December 31, 2005 but were not included in the computation of diluted income per share because they were anti-dilutive. Options and warrants to purchase a total of 8,027,000 shares of common stock, at exercise prices ranging from \$5.56 to \$21.00 per share, were outstanding at December 31, 2004 but were not included in the computation of diluted income per share because they were anti-dilutive. Options and warrants to purchase a total of 10,321,000 shares of common stock, at exercise prices ranging from \$4.94 to \$21.00 per share, were outstanding at December 31, 2003 but were not included in the computation of diluted income per share because they were anti-dilutive.

The net effects of the assumed conversion of preferred stock have been excluded from the computation of diluted income per share for all periods presented because the effects would be anti-dilutive.

L. Stock Option Plans

On June 9, 2004, stockholders approved the adoption of the 2004 Non-Employee Directors' Stock Option Plan. Under this plan, each director was granted a stock option to purchase 10,000 shares of common stock at an exercise price equal to the fair market value of the common stock on June 9, 2004. In addition, each new non-employee director, on the date of his or her election to the Board of Directors (whether elected by the stockholders or the Board of Directors), automatically will be granted a stock option to purchase 10,000 shares of common stock at an exercise price equal to the fair market value of the common stock on the date of grant. Twenty percent of such option shares become exercisable on each of the first through the fifth anniversary of the date of grant. This plan also provides for the automatic additional grant to each non-employee director of stock options to purchase 10,000 shares of common stock each time the non-employee director is re-elected to the Board. One-third of such option shares become exercisable on each of the first through the third anniversary of the date of grant. The term of options granted under this plan shall be ten years. Non-employee directors are not eligible to participate in any other stock option or similar

plans

Table of Contents

currently maintained by Newpark. The purpose of the 2004 Non-Employee Directors' Plan is to promote an increased incentive and personal interest in the welfare of Newpark by those individuals who are primarily responsible for shaping the long-range plans of Newpark, to assist Newpark in attracting and retaining on the Board persons of exceptional competence and to provide additional incentives to serve as a director of Newpark. This plan superseded the 1993 Non-Employee Directors' Stock Option Plan.

On November 2, 1995, the Board of Directors adopted, and on June 12, 1996 the stockholders approved, the Newpark Resources, Inc. 1995 Incentive Stock Option Plan (the 1995 Plan), pursuant to which the Compensation Committee may grant incentive stock options and non-statutory stock options to designated employees of Newpark. The terms of options granted under the 1995 Plan generally provide for equal vesting over a three-year period and a term of seven years. Initially, a maximum of 2,100,000 shares of Common Stock could be issued under the 1995 Plan. This maximum number was subject to increase on the last business day of each fiscal year by a number equal to 1.25% of the number of shares of Common Stock issued and outstanding on the close of business on such date, subject to a maximum limit of 8 million shares. This reflects an increase in the limit that was approved by Newpark stockholders in June 2000. As of December 31, 2005, no options were available for granting under this plan.

A summary of the status of Newpark's stock option plans as of December 31, 2005, 2004 and 2003 and changes during the periods ended on those dates is presented below:

	Years Ended December 31,					
	2005		2004		2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	5,532,669	\$6.44	5,619,791	\$6.85	6,264,214	\$7.41
Granted	450,000	6.27	942,000	5.59	922,000	4.67
Exercised	(934,472)	5.21	(178,549)	4.48	(5,666)	5.03
Expired or canceled	(574,166)	9.29	(850,573)	8.62	(1,560,757)	7.82
Outstanding at end of year	4,474,031	\$6.31	5,532,669	\$6.44	5,619,791	\$6.85
Options exercisable at end of year	3,733,371	\$6.44	4,811,596	\$6.66	3,735,679	\$7.35
Weighted-average fair value of options granted during the year (Restated)		\$3.59		\$3.32		\$2.83

The following table summarizes information about stock options granted during the year where the exercise price of the options differed from the market price of the stock on the grant date:

Year Ended December 31,		
2005	2004	2003
(Restated)	(Restated)	(Restated)

Weighted-average exercise price:

Exercise price equals the market price of the stock on the date of grant	\$6.38	\$5.61	\$5.91
Exercise price exceeds the market price of the stock on the date of grant	\$6.26	\$4.88	\$5.37
Exercise price is less than the market price of the stock on the date of grant	\$5.20	\$5.39	\$3.59
Weighted-average fair value:			
Exercise price equals the market price of the stock on the date of grant	\$3.60	\$3.33	\$3.05

Table of Contents

	Year Ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Exercise price exceeds the market price of the stock on the date of grant	\$3.58	\$2.96	\$2.77
Exercise price is less than the market price of the stock on the date of grant	\$3.53	\$3.44	\$2.65

The following table summarizes information about all stock options outstanding at December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
\$2.90 to \$5.13	1,165,166	2.08	\$ 4.46	1,003,568	\$ 4.56
\$5.19 to \$5.90	1,006,200	5.38	5.66	880,203	5.68
\$6.00 to \$7.08	1,174,166	4.37	6.62	742,101	6.84
\$7.19 to \$8.19	919,499	2.81	7.63	919,499	7.63
\$8.34 to \$21.00	209,000	3.57	12.25	188,000	12.68
	4,474,031	3.64	\$ 6.31	3,733,371	\$ 6.44

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, with the following assumptions:

	Year Ended December 31,		
	2005	2004	2003
Risk-free interest rate	3.9%	3.6%	2.5%
Expected years until exercise	4	4	4
Expected stock volatility	72.0%	77.6%	67.8%
Dividend yield	0.0%	0.0%	0.0%

M. Incentive Plans, Deferred Compensation Plan and 401-K Plan

On June 8, 2005, the Board of Directors unanimously adopted the Long Term Cash Incentive Plan (the 2005 Plan). Each award under the 2005 Plan shall consist of an amount of cash (to be paid on a deferred basis) subject to a restriction period (after which the restrictions shall lapse), which shall mean a period commencing on the date the award is granted and ending on such date as the committee administering the plan shall determine as of the date the award is granted. No employee shall be eligible to be a participant for any calendar year in which the employee is a participant under Newpark's 2003 Long Term Incentive Plan. The maximum amount of cash that may be awarded pursuant to the 2005 Plan shall be \$2 million. If the right to receive cash awarded under the 2005 Plan is cancelled due to forfeiture, or for any other reason, such cash shall be available thereafter for purposes of the 2005 Plan. As of December 31, 2005 \$1,960,000 of awards were outstanding under the 2005 Plan and \$40,000 of awards were

available for grant.

On March 12, 2003, the Board of Directors unanimously adopted the 2003 Long Term Incentive Plan (the 2003 Plan), and the 2003 Plan was approved by the stockholders at the 2003 Annual Meeting. Under the 2003 Plan, awards of share equivalents will be made at the beginning of overlapping three-year performance periods. These awards will vest and become payable in Newpark common stock if certain performance criteria are met over the three-year performance period. The Compensation Committee has initially determined that a new three-year period will begin each January 1, with the first performance period starting January 1, 2003.

Table of Contents

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

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

Initially, the Compensation Committee has determined that the performance criteria it will use are (i) Newpark's annualized total stockholder return compared to its peers in the PHLX Oil Service Sectorsm (OSXsm) industry group index published by the Philadelphia Stock Exchange and (ii) Newpark's average return on equity over the three-year period. Partial vesting occurs when Newpark's performance achieves expected levels, and full vesting occurs if Newpark's performance is at the over-achievement level for both performance measures, in each case measured over the entire three-year performance period. No shares vest if Newpark's performance level is below the expected level, and straight-line interpolation will be used to determine vesting if performance is between expected and over-achievement levels. For the initial performance period, the following performance levels have been adopted:

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

Awards under the 2003 Plan are being accounted for using variable accounting. Based on Newpark's performance as compared to the performance levels listed above, no expense was accrued under the 2003 Plan for the years ended December 31, 2005, 2004 and 2003.

In March 1997, Newpark established a Long-Term Stock and Cash Incentive Plan (the Plan). By policy, Newpark limited participation in the Plan to certain key employees of companies acquired subsequent to inception of the Plan. The intent of the Plan was to increase the value of the stockholders' investment in Newpark by improving Newpark's performance and profitability and to retain, attract and motivate key employees who were not directors or officers of Newpark but whose judgment, initiative and efforts were expected to contribute to the continued success, growth and profitability of Newpark.

Subject to the provisions of the Plan, a committee could (i) grant awards pursuant to the Plan, (ii) determine the number of shares of stock or the amount of cash or both subject to each award, (iii) determine the terms and conditions (which need not be identical) of each award, provided that stock would be issued without the payment of cash consideration other than an amount equal to the par value of the stock, (iv) establish and modify performance criteria for awards, and (v) make all of the determinations necessary or advisable with respect to awards under the Plan.

Each award under the Plan consists of a grant of shares of stock or an amount of cash (to be paid on a deferred basis) subject to a restriction period (after which the restrictions lapse), which

Table of Contents

means a period commencing on the date the award is granted and ending on such date as the committee determines. The committee could provide for the lapse of restrictions in installments, for acceleration of the lapse of restrictions upon the satisfaction of such performance or other criteria or upon the occurrence of such events as the committee determines, and for the early expiration of the restriction period upon a participant's death, disability, retirement at or after normal retirement age or the termination of the participant's employment with Newpark by Newpark without cause.

The maximum number of shares of common stock of Newpark that could be issued pursuant to the Plan was 676,909, subject to adjustment pursuant to certain provisions of the Plan. The maximum amount of cash that could be awarded pursuant to the Plan was \$1,500,000. If shares of stock or the right to receive cash awarded or issued under the Plan were reacquired by Newpark due to forfeiture or for any other reason, these shares or right to receive cash could be cancelled and thereafter could again be available for purposes of the Plan. At December 31, 2005, all available awards under the Plan had been awarded.

In 2005, Newpark had no cost associated with the stock portion of the Plan. The total cost associated with the stock portion of the Plan was \$331,000 in 2004 and \$277,000 in 2003.

During the periods reported, substantially all of Newpark's U.S. employees were covered by a defined contribution retirement plan (the 401(k) Plan). Employees may voluntarily contribute up to 50% of compensation, as defined, to the 401(k) Plan. The participants' contributions, up to 6% of compensation, were matched 50% by Newpark. Under the 401(k) Plan, Newpark's cash contributions were approximately \$1,029,000, \$940,000 and \$887,000 in 2005, 2004 and 2003, respectively.

N. Supplemental Cash Flow Information

Included in accounts payable and accrued liabilities at December 31, 2005, 2004 and 2003, were equipment purchases of \$890,000, \$434,000 and \$762,000, respectively.

During the year ended December 31, 2005, Newpark financed with capital leases the acquisition of property, plant and equipment totaling \$4,774,000. During the year ended December 31, 2004, Newpark financed with capital leases the acquisition of property, plant and equipment totaling \$5,466,000 and purchases of inventory totaling \$1,354,000.

Newpark paid interest of \$16,493,000, \$14,171,000 and \$15,079,000 in 2005, 2004 and 2003, respectively. Income tax refunds, net of income taxes paid, totaled \$1,718,000 and \$665,000 in 2005 and 2003, respectively. Income taxes paid, net of income tax refunds, totaled \$2,537,000 in 2004.

O. Commitments and Contingencies***Litigation***

Newpark, through a consolidated subsidiary, purchased composite mats from LOMA, which manufactured the mats under an exclusive license granted by OLS. Newpark, through a separate consolidated subsidiary, owned 49% of LOMA and OLS held the remaining 51% interest. OLS had granted Newpark an exclusive license to use and sell these composite mats (Exclusive License). On April 18, 2005, Newpark acquired OLS in exchange for a cash payment of \$1.3 million. (See Note C.) The principal assets of OLS included the patents licensed to LOMA for use in the manufacture of the mats, a note receivable from LOMA and its 51% membership interest in LOMA. As a result of the acquisition of OLS, Newpark, through two of its subsidiaries, owns all of the outstanding equity interests in LOMA and the parties and their affiliates mutually dismissed all previously pending litigation, which is described below.

In 2003, OLS, purportedly on LOMA's behalf, filed suit against Newpark and several of its officers claiming breach of contract, breach of fiduciary duty and unfair trade practices arising out of

Table of Contents

claims that Newpark's manufacturing of Bravo mats was a material breach of the Exclusive License agreement. LOMA and OLS threatened to terminate the Exclusive License. LOMA had also taken the position that it had the right to sell composite mats to third parties, despite Newpark's Exclusive License to use and sell them. Newpark contended that no violation had occurred and that LOMA had no right to sell the composite mats it manufactures to anyone other than Newpark. Litigation was already pending as a result of a lawsuit filed in 2002 by a Newpark subsidiary against LOMA concerning the pricing formula that LOMA used to invoice Newpark for mats (the Pricing Dispute).

On June 29, 2004, the Louisiana Fifteenth Judicial District Court granted judgment in Newpark's favor in the Pricing Dispute affirming Newpark's interpretation of the pricing of the DuraBase composite mats and awarded Newpark \$11.7 million in damages for overcharges through December 31, 2002. The state court judgment further denied the claims by LOMA and OLS to void the Exclusive License. The judgment had been appealed by LOMA and OLS to the Louisiana Third Circuit Court of Appeal. Lacking adequate liquidity to obtain a bond to suspend execution of the judgment pending appeal, LOMA filed for protection under Chapter 11 of the Bankruptcy Code on August 11, 2004. Newpark sought the appointment of a Chapter 11 Trustee to assume control over LOMA's affairs while in Chapter 11. LOMA eventually acquiesced and the bankruptcy court order confirmed the appointment of a Chapter 11 Trustee. A motion to dismiss the LOMA bankruptcy proceedings was heard on April 19, 2005 and such proceedings were dismissed.

In addition, Newpark and its subsidiaries are involved in litigation and other claims or assessments on matters arising in the normal course of business. In the opinion of management, any recovery or liability in these matters should not have a material effect on Newpark's consolidated financial statements.

Newpark has been given notice of several lawsuits subsequent to December 31, 2005 as further described in Note T.

Environmental Proceedings

In the ordinary course of conducting its business, Newpark becomes involved in judicial and administrative proceedings involving governmental authorities at the federal, state and local levels, as well as private party actions. Pending proceedings that allege liability related to environmental matters are described below. Management believes that none of these matters involves material exposure. Management cannot assure you, however, that this exposure does not exist or will not arise in other matters relating to Newpark's past or present operations.

Newpark continues to be involved in the voluntary cleanup associated with the DSI sites in southern Mississippi. This includes three facilities known as Clay Point, Lee Street and Woolmarket. The Mississippi Department of Environmental Quality (MDEQ) is overseeing the cleanup. The DSI Technical Group that represents the potentially responsible parties, including Newpark, awarded Newpark a contract to perform the remediation work at the three sites. The cleanup of Clay Point and Lee Street has been completed. Management believes that payments previously made into an escrow account by all potentially responsible parties are sufficient to cover any remaining costs of cleanup at the Woolmarket site. Management anticipates that the Woolmarket cleanup will be completed in 2006 following recent approval of the closure plan by the MDEQ.

Recourse against Newpark's insurers under general liability insurance policies for reimbursement in the environmental actions described above is uncertain as a result of conflicting court decisions in similar cases. In addition, certain insurance policies under which coverage may be afforded contain self-insurance levels that may exceed Newpark's ultimate liability.

Table of Contents

Management believes that any liability incurred in the environmental matters described above will not have a material adverse effect on Newpark's consolidated financial statements.

Operating Leases

Newpark leases various manufacturing facilities, warehouses, office space, machinery and equipment, including transportation equipment and composite and wooden mats, under operating leases with remaining terms ranging from one to 13 years, with various renewal options. Substantially all leases require payment of taxes, insurance and maintenance costs in addition to rental payments. Total rental expenses for all operating leases were approximately \$24.0 million in 2005, 2004 and 2003.

Future minimum payments under non-cancellable operating leases, with initial or remaining terms in excess of one year are as follows (in thousands):

2006	\$ 11,164
2007	9,429
2008	5,656
2009	3,696
2010	1,188
Thereafter	3,501
	\$ 34,634

Other

During late August and early September 2005, Newpark's fluids systems and engineering and environmental services operations along the Gulf Coast were affected by Hurricanes Katrina and Rita. As a result, in 2005 Newpark recorded losses totaling \$7.9 million, including losses related to property, plant and equipment damages totaling \$4.0 million, inventory losses totaling \$1.4 million and additional costs as a direct result of the storms totaling \$2.5 million. Newpark recorded these losses as additions to cost of revenues. As of December 31, 2005, based on agreements with its insurers as to insurance coverage, Newpark recorded insurance recoveries totaling \$9.4 million, including \$4.8 million for property, plant and equipment, \$2.5 million related to additional costs as a direct result of the storms and \$2.1 million for business interruption, net of a \$100,000 insurance deductible per occurrence. Newpark recorded these insurance recoveries as reductions to cost of revenues.

In the normal course of business, in conjunction with its insurance programs, Newpark had established letters of credit in favor of certain insurance companies in the amount of \$1.2 million at December 31, 2005 and 2004, respectively. In addition, as of December 31, 2005 and 2004, Newpark had established letters of credit in favor of its barite suppliers in the amount of \$5.5 million and \$11.9 million, respectively. At December 31, 2005 and 2004, Newpark had outstanding guarantee obligations totaling \$9.6 million and \$9.0 million, respectively, in connection with facility closure bonds and other performance bonds issued by an insurance company.

At December 31, 2005, Newpark had issued a \$4.5 million guarantee of certain debt obligations of LOMA supported by a letter of credit issued under the Credit Facility. At December 31, 2004, the amount of this guarantee was \$6.2 million. The guarantee is renewable annually and the amount is based on the outstanding balance of the related bonds. (See Note G.)

At December 31, 2004, Newpark had issued a guarantee for certain lease obligations of a joint venture which supplied a portion of its wooden mats on a day rate leasing basis. The amount of this guarantee at December 31, 2004 was \$4.2 million. In January 2005, the joint venture was dissolved and Newpark took possession of the underlying assets and assumed the obligations under the leases. Newpark recorded these leases as capital leases in accordance with FAS 13.

Table of Contents

Newpark is self-insured for health claims up to a certain policy limit. Claims in excess of \$150,000 per incident and approximately \$10.5 million in the aggregate per year are insured by third-party re-insurers. At December 31, 2005, Newpark had accrued a liability of \$1.4 million for outstanding and incurred, but not reported, claims based on historical experience. These estimated claims are expected to be paid within one year of their occurrence.

Newpark is self-insured for certain workers' compensation, auto and general liability claims up to a certain policy limit. Claims in excess of \$100,000 are insured by third-party reinsurers. At December 31, 2005, Newpark had accrued a liability of \$897,000 for the uninsured portion of claims based on reports provided by its third party administrator.

P. Concentrations of Credit Risk

Financial instruments that potentially subject Newpark to significant concentrations of credit risk consist principally of cash investments and trade accounts and notes receivable.

Newpark maintains cash and cash equivalents with various financial institutions. These financial institutions are located throughout Newpark's trade area, and company policy is designed to limit exposure to any one institution. As part of Newpark's investment strategy, Newpark performs periodic evaluations of the relative credit standing of these financial institutions.

Concentrations of credit risk with respect to trade accounts and notes receivable are generally limited due to the large number of entities comprising Newpark's customer base, and for notes receivable the required collateral. Newpark maintains an allowance for losses based upon the expected collectibility of accounts receivable. Changes in this allowance for 2005, 2004 and 2003 are as follows:

(In thousands)	2005	2004	2003
Balance at beginning of year	\$ 3,260	\$2,920	\$2,102
Provision for uncollectible accounts	843	800	1,000
Write-offs, net of recoveries	(3,299)	(460)	(182)
Balance at end of year	\$ 804	\$3,260	\$2,920

The reduction in the allowance for doubtful accounts during 2005 is principally due to the write-off of accounts deemed to be uncollectible, which were previously provided for.

Newpark does not believe it is dependent on any one customer. During the years ended December 31, 2005, 2004 and 2003, no one customer accounted for more than 10% of total sales. Export sales are not significant.

Newpark periodically reviews the collectibility of its notes receivable and adjusts the carrying value to the net realizable value. Adjustments to the carrying value of notes receivable were not significant in 2005 or 2004.

As of December 31, 2003, Newpark held a note receivable (the "Note") obtained in connection with the sale of its former marine repair operations. The Note was included in other assets at its estimated fair value of approximately \$8.2 million, including \$1.9 million of accrued interest. The Note was originally scheduled to mature in September 2003, at which time the anticipated outstanding balance of the Note, plus accrued interest (collectively, the

"Obligation") would have been approximately \$8.5 million, after application of a prepayment principal discount of approximately \$2.2 million. The Obligation was secured by a first lien on the assets sold as well as certain guarantees of the issuer. During 2004, Newpark collected the entire balance of the Note, including all interest accruable on the Note. Newpark had ceased accrual of interest on the Note in

Table of Contents

January 2003 due to the financial condition of the issuer. Included in interest income for 2004 is \$823,000 of previously unaccrued interest related to the Note.

Q. Supplemental Selected Quarterly Financial Data (Unaudited)

As further discussed in Footnote A, Restatement of Historical Financial Statements, Newpark has restated previously issued financial statements. Newpark did not amend the Quarterly Reports on Form 10-Q for any periods prior to December 31, 2005, and the financial statements and related financial information contained in those reports should no longer be relied upon. A presentation of the effects of the restatement on reported amounts for the quarters ended March 31, June 30 and September 30, 2005 and 2004 follows:

90

Table of Contents

Newpark Resources, Inc.
Consolidated Balance Sheet
 March 31, 2005
 (Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,621	\$ 8,621
Trade accounts receivable, less allowance of \$415 in 2005	114,691	114,691
Notes and other receivables	6,211	5,953
Inventories	77,101	77,101
Deferred tax asset	10,662	10,662
Prepaid expenses and other current assets	15,604	15,604
Total current assets	232,890	232,632
Property, plant and equipment, at cost, net of accumulated depreciation	219,962	218,349
Goodwill	117,001	117,001
Deferred tax asset	3,154	7,695
Other intangible assets, net of accumulated amortization	14,997	9,595
Other assets	17,461	16,953
	\$ 605,465	\$ 602,225
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Foreign bank lines of credit	\$ 9,736	\$ 9,736
Current maturities of long-term debt	7,711	7,711
Accounts payable	33,389	33,389
Accrued liabilities	33,876	34,389
Total current liabilities	84,712	85,225
Long-term debt, less current portion	191,012	191,012
Deferred tax liability		
Other noncurrent liabilities	1,723	1,723
Stockholders equity:		
Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, 80,000 outstanding at March 31, 2005	20,000	20,000
Common Stock, \$0.01 par value, 100,000,000 shares authorized, 84,179,487 shares outstanding at March 31, 2005	842	842
Paid-in capital	402,976	411,511
Unearned restricted stock compensation	(413)	(413)
Accumulated other comprehensive income	7,574	7,574

Retained deficit	(102,961)	(115,249)
Total stockholders equity	328,018	324,265
	\$ 605,465	\$ 602,225

Table of Contents

Newpark Resources, Inc.

Consolidated Statements of Income

Three Months Ended March 31, 2005

(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$ 129,053	\$ 129,053
Cost of revenues	115,097	114,617
	13,956	14,436
General and administrative expenses	2,075	2,077
Provision for uncollectible accounts		
Impairment losses		
Operating income	11,881	12,359
Foreign currency exchange gain	(274)	(274)
Interest and other income	(69)	(69)
Interest expense	4,081	4,081
Income before income taxes	8,143	8,621
Provision for income taxes	3,029	3,197
Net income	5,114	5,424
Less: Preferred stock dividends and accretion	225	225
Net income applicable to common and common equivalent shares	\$ 4,889	\$ 5,199
Income per common and common equivalent share:		
Basic	\$ 0.06	\$ 0.06
Diluted	\$ 0.06	\$ 0.06

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Income

Three Months Ended March 31, 2004

(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$ 104,309	\$ 104,309
Cost of revenues	95,613	95,436
	8,696	8,873
General and administrative expenses	2,452	2,457
Provision for uncollectible accounts		
Impairment losses		
Operating income	6,244	6,416
Foreign currency exchange loss	108	108
Interest and other income	(121)	(121)
Interest expense	3,572	3,572
Income before income taxes	2,685	2,857
Provision for income taxes	1,007	1,068
Net income	1,678	1,789
Less: Preferred stock dividends and accretion	263	263
Net income applicable to common and common equivalent shares	\$ 1,415	\$ 1,526
Income per common and common equivalent share:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Comprehensive Income

Three Months Ended March 31, 2005

(Unaudited)

(In thousands)	As Previously Reported	Restated
Net income	\$5,114	\$5,424
Other comprehensive income (loss):		
Foreign currency translation adjustments	(625)	(625)
Comprehensive income	\$4,489	\$4,799

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Comprehensive Income

Three Months Ended March 31, 2004

(Unaudited)

(In thousands)	As Previously Reported	Restated
Net income	\$1,678	\$1,789
Other comprehensive income (loss):		
Foreign currency translation adjustments	(767)	(767)
Comprehensive income	\$ 911	\$1,022

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Cash Flows

Three Months Ended March 31, 2005

(Unaudited)

(In thousands)	As Previously Reported	Restated
Cash flows from operating activities:		
Net income	\$ 5,114	\$ 5,424
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	6,230	5,827
Stock-based compensation expense		162
Provision for deferred income taxes	2,660	2,828
Loss on sale of assets	286	286
Change in assets and liabilities, net of acquisitions:		
Increase in accounts and notes receivable	(12,805)	(13,602)
Decrease in inventories	6,943	6,943
Increase in other assets	(2,063)	(1,450)
Decrease in accounts payable	(5,581)	(5,581)
Increase in accrued liabilities and other	6,093	6,040
Net cash provided by operations	6,877	6,877
Cash flows from investing activities:		
Capital expenditures	(10,413)	(10,413)
Proceeds from sale of property, plant and equipment	35	35
Net cash used in investing activities	(10,378)	(10,378)
Cash flows from financing activities:		
Net borrowings on lines of credit	6,603	6,603
Principal payments on notes payable and long-term debt	(1,867)	(1,867)
Proceeds from exercise of stock options and ESPP	730	730
Preferred stock dividends	(225)	(225)
Net cash provided by financing activities	5,241	5,241
Effect of exchange rate changes	(141)	(141)
Net increase in cash and cash equivalents	1,599	1,599
Cash and cash equivalents at beginning of year	7,022	7,022
Cash and cash equivalents at end of year	\$ 8,621	\$ 8,621

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Cash Flows

Three Months Ended March 31, 2004

(Unaudited)

(In thousands)	As Previously Reported	Restated
Cash flows from operating activities:		
Net income	\$ 1,678	\$ 1,789
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	5,284	5,052
Stock-based compensation expense		175
Provision for deferred income taxes	(360)	(300)
Gain on sale of assets	(107)	(107)
Change in assets and liabilities, net of acquisitions:		
Decrease in restricted cash	8,029	8,029
Increase in accounts and notes receivable	(6,247)	(7,401)
Increase in inventories	(4,397)	(4,397)
Increase in other assets	(2,596)	(1,573)
Decrease in accounts payable	(2,402)	(2,402)
Increase in accrued liabilities and other	12,391	12,408
Net cash provided by operations	11,273	11,273
Cash flows from investing activities:		
Capital expenditures	(2,672)	(2,672)
Proceeds from sale of property, plant and equipment	185	185
Net cash used in investing activities	(2,487)	(2,487)
Cash flows from financing activities:		
Net payments on lines of credit	(9,302)	(9,302)
Principal payments on notes payable and long-term debt	(418)	(418)
Proceeds from exercise of stock options and ESPP	132	132
Net cash used in financing activities	(9,588)	(9,588)
Effect of exchange rate changes	(95)	(95)
Net decrease in cash and cash equivalents	(897)	(897)
Cash and cash equivalents at beginning of year	4,692	4,692
Cash and cash equivalents at end of year	\$ 3,795	\$ 3,795

Table of Contents

Newpark Resources, Inc.
Consolidated Balance Sheet
 June 30, 2005
 (Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,506	\$ 12,506
Trade accounts receivable, less allowance of \$735 in 2005	118,401	118,401
Notes and other receivables	4,616	4,512
Inventories	80,812	80,812
Deferred tax asset	11,508	11,508
Prepaid expenses and other current assets	14,135	14,135
Total current assets	241,978	241,874
Property, plant and equipment, at cost, net of accumulated depreciation	239,760	237,953
Goodwill	116,289	116,289
Deferred tax asset		4,167
Other intangible assets, net of accumulated amortization	19,106	13,886
Other assets	5,641	5,398
	\$622,774	\$ 619,567
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Foreign bank lines of credit	\$ 10,102	\$ 10,102
Current maturities of long-term debt	10,404	10,404
Accounts payable	41,672	41,672
Accrued liabilities	32,320	33,171
Total current liabilities	94,498	95,349
Long-term debt, less current portion	193,372	193,372
Deferred tax liability	279	
Other noncurrent liabilities	2,260	2,260
Stockholders equity:		
Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, 80,000 outstanding at June 30, 2005	20,000	20,000
Common Stock, \$0.01 par value, 100,000,000 shares authorized, 84,316,516 shares outstanding at June 30, 2005	844	844
Paid-in capital	404,130	412,614
Unearned restricted stock compensation	(353)	(353)

Accumulated other comprehensive income	5,876	5,876
Retained deficit	(98,132)	(110,395)
Total stockholders equity	332,365	328,586
	\$622,774	\$ 619,567

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Income

Three Months Ended June 30, 2005

(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$ 141,496	\$ 141,496
Cost of revenues	126,677	126,659
Depreciation and amortization	14,819	14,837
General and administrative expenses	2,625	2,627
Provision for uncollectible accounts		
Impairment losses		
Operating income	12,194	12,210
Foreign currency exchange loss	283	283
Interest and other income	(55)	(55)
Interest expense	4,195	4,195
Income before income taxes	7,771	7,787
Provision for income taxes	2,717	2,707
Net income	5,054	5,080
Less: Preferred stock dividends and accretion	225	225
Net income applicable to common and common equivalent shares	\$ 4,829	\$ 4,855
Income per common and common equivalent share:		
Basic	\$ 0.06	\$ 0.06
Diluted	\$ 0.06	\$ 0.06

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Income

Three Months Ended June 30, 2004

(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$ 104,633	\$ 104,633
Cost of revenues	97,096	96,822
	7,537	7,811
General and administrative expenses	2,419	2,420
Provision for uncollectible accounts		
Impairment losses		
Operating income	5,118	5,391
Foreign currency exchange loss	34	34
Interest and other income	(1,016)	(1,016)
Interest expense	3,552	3,552
Income before income taxes	2,548	2,821
Provision for income taxes	981	1,077
Net income	1,567	1,744
Less: Preferred stock dividends and accretion	225	225
Net income applicable to common and common equivalent shares	\$ 1,342	\$ 1,519
Income per common and common equivalent share:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Income

Six Months Ended June 30, 2005

(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$270,549	\$270,549
Cost of revenues	241,774	241,276
	28,775	29,273
General and administrative expenses	4,700	4,704
Provision for uncollectible accounts		
Impairment losses		
Operating income	24,075	24,569
Foreign currency exchange loss	9	9
Interest and other income	(124)	(124)
Interest expense	8,276	8,276
Income before income taxes	15,914	16,408
Provision for income taxes	5,746	5,904
Net income	10,168	10,504
Less: Preferred stock dividends and accretion	450	450
Net income applicable to common and common equivalent shares	\$ 9,718	\$ 10,054
Income per common and common equivalent share:		
Basic	\$ 0.12	\$ 0.12
Diluted	\$ 0.12	\$ 0.12

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Income

Six Months Ended June 30, 2004

(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$208,942	\$208,942
Cost of revenues	192,709	192,258
Depreciation and amortization	16,233	16,684
General and administrative expenses	4,871	4,877
Provision for uncollectible accounts		
Impairment losses		
Operating income	11,362	11,807
Foreign currency exchange loss	142	142
Interest and other income	(1,137)	(1,137)
Interest expense	7,124	7,124
Income before income taxes	5,233	5,678
Provision for income taxes	1,988	2,145
Net income	3,245	3,533
Less: Preferred stock dividends and accretion	488	488
Net income applicable to common and common equivalent shares	\$ 2,757	\$ 3,045
Income per common and common equivalent share:		
Basic	\$ 0.03	\$ 0.04
Diluted	\$ 0.03	\$ 0.04

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Comprehensive Income

Three Months Ended June 30, 2005

(Unaudited)

(In thousands)	As Previously Reported	Restated
Net income	\$ 5,054	\$ 5,080
Other comprehensive income (loss):		
Foreign currency translation adjustments	(1,698)	(1,698)
Comprehensive income	\$ 3,356	\$ 3,382

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Comprehensive Income

Three Months Ended June 30, 2004

(Unaudited)

(In thousands)	As Previously Reported	Restated
Net income	\$ 1,567	\$ 1,744
Other comprehensive income (loss):		
Foreign currency translation adjustments	(1,727)	(1,727)
Comprehensive (loss) income	\$ (160)	\$ 17

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Comprehensive Income

Six Months Ended June 30, 2005

(Unaudited)

(In thousands)	As Previously Reported	Restated
Net income	\$ 10,168	\$ 10,504
Other comprehensive income (loss):		
Foreign currency translation adjustments	(2,323)	(2,323)
Comprehensive income	\$ 7,845	\$ 8,181

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Comprehensive Income

Six Months Ended June 30, 2004

(Unaudited)

(In thousands)	As Previously Reported	Restated
Net income	\$ 3,245	\$ 3,533
Other comprehensive income (loss):		
Foreign currency translation adjustments	(2,494)	(2,494)
Comprehensive income	\$ 751	\$ 1,039

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Cash Flows

Six Months Ended June 30, 2005

(Unaudited)

(In thousands)	As Previously Reported	Restated
Cash flows from operating activities:		
Net income	\$ 10,168	\$ 10,504
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	12,740	11,894
Stock-based compensation expense		352
Provision for deferred income taxes	5,365	5,522
Loss on sale of assets	227	227
Change in assets and liabilities, net of acquisitions:		
Increase in accounts and notes receivable	(15,057)	(16,009)
Decrease in inventories	3,156	3,156
Increase in other assets	(4,715)	(4,367)
Increase in accounts payable	2,514	2,514
Increase in accrued liabilities and other	4,859	5,144
Net cash provided by operations	19,257	18,937
Cash flows from investing activities:		
Capital expenditures	(19,997)	(19,677)
Proceeds from sale of property, plant and equipment	502	502
Acquisitions, net of cash acquired	(840)	(840)
Net cash used in investing activities	(20,335)	(20,015)
Cash flows from financing activities:		
Net borrowings on lines of credit	4,643	4,643
Principal payments on notes payable and long-term debt	(3,968)	(3,968)
Long-term borrowings	4,855	4,855
Proceeds from exercise of stock options and ESPP	1,886	1,886
Preferred stock dividends paid in cash	(450)	(450)
Net cash provided by financing activities	6,966	6,966
Effect of exchange rate changes	(404)	(404)
Net increase in cash and cash equivalents	5,484	5,484
Cash and cash equivalents at beginning of year	7,022	7,022
Cash and cash equivalents at end of year	\$ 12,506	\$ 12,506

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Cash Flows

Six Months Ended June 30, 2004

(Unaudited)

(In thousands)	As Previously Reported	Restated
Cash flows from operating activities:		
Net income	\$ 3,245	\$ 3,533
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	10,158	9,690
Stock-based compensation expense		306
Provision for deferred income taxes	1,010	1,167
Gain on sale of assets	(223)	(223)
Change in assets and liabilities, net of acquisitions:		
Decrease in restricted cash	8,029	8,029
Decrease (increase) in accounts and notes receivable	575	(1,108)
Increase in inventories	(1,255)	(1,255)
Increase in other assets	(4,552)	(3,185)
Decrease in accounts payable	(8,123)	(8,123)
Increase in accrued liabilities and other	9,216	9,249
Net cash provided by operations	18,080	18,080
Cash flows from investing activities:		
Capital expenditures	(7,265)	(7,265)
Proceeds from sale of property, plant and equipment	1,583	1,583
Payment received on former shipyard operation note receivable	6,328	6,328
Net cash provided by investing activities	646	646
Cash flows from financing activities:		
Net payments on lines of credit	(14,123)	(14,123)
Principal payments on notes payable and long-term debt	(1,136)	(1,136)
Proceeds from exercise of stock options and ESPP	255	255
Preferred stock dividends paid in cash	(225)	(225)
Net cash used in financing activities	(15,229)	(15,229)
Effect of exchange rate changes	(223)	(223)
Net increase in cash and cash equivalents	3,274	3,274
Cash and cash equivalents at beginning of year	4,692	4,692
Cash and cash equivalents at end of year	\$ 7,966	\$ 7,966

Table of Contents

Newpark Resources, Inc.
Consolidated Balance Sheet
September 30, 2005
(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,318	\$ 10,318
Trade accounts receivable, less allowance of \$1,107 in 2005	132,608	132,608
Notes and other receivables	10,158	10,158
Inventories	83,746	83,746
Deferred tax asset	10,585	10,585
Prepaid expenses and other current assets	13,236	13,236
Total current assets	260,651	260,651
Property, plant and equipment, at cost, net of accumulated depreciation	236,765	235,421
Goodwill	117,035	117,035
Deferred tax asset		4,036
Other intangible assets, net of accumulated amortization	18,525	13,488
Other assets	6,648	6,162
	\$639,624	\$ 636,793
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Foreign bank lines of credit	\$ 10,514	\$ 10,514
Current maturities of long-term debt	10,037	10,037
Accounts payable	41,278	41,278
Accrued liabilities	38,794	39,745
Total current liabilities	100,623	101,574
Long-term debt, less current portion	193,187	193,187
Other noncurrent liabilities	3,336	3,336
Stockholders equity:		
Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, none outstanding at September 30, 2005		
Common Stock, \$0.01 par value, 100,000,000 shares authorized, 88,303,729 shares outstanding at September 30, 2005	884	884
Paid-in capital	427,280	435,533
Unearned restricted stock compensation	(294)	(294)
Accumulated other comprehensive income	7,754	7,754

Retained deficit	(93,146)	(105,181)
Total stockholders equity	342,478	338,696
	\$639,624	\$ 636,793

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Income

Three Months Ended September 30, 2005

(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$ 139,143	\$ 139,143
Cost of revenues	126,420	126,067
	12,723	13,076
General and administrative expenses	2,480	2,482
Provision for uncollectible accounts		
Impairment losses		
Operating income	10,243	10,594
Foreign currency exchange gain	(352)	(352)
Interest and other income	(126)	(126)
Interest expense	4,122	4,122
Income before income taxes	6,599	6,950
Provision for income taxes	1,554	1,678
Net income	5,045	5,272
Less: Preferred stock dividends and accretion	59	59
Net income applicable to common and common equivalent shares	\$ 4,986	\$ 5,213
Income per common and common equivalent share:		
Basic	\$ 0.06	\$ 0.06
Diluted	\$ 0.06	\$ 0.06

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Income

Three Months Ended September 30, 2004

(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$ 110,790	\$ 110,790
Cost of revenues	103,401	103,097
	7,389	7,693
General and administrative expenses	2,122	2,124
Provision for uncollectible accounts		
Impairment losses		
Operating income	5,267	5,569
Foreign currency exchange loss	76	76
Interest and other income	(118)	(118)
Interest expense	3,760	3,760
Income before income taxes	1,549	1,851
Provision for income taxes	589	696
Net income	960	1,155
Less: Preferred stock dividends and accretion	225	225
Net income applicable to common and common equivalent shares	\$ 735	\$ 930
Income per common and common equivalent share:		
Basic	\$ 0.01	\$ 0.01
Diluted	\$ 0.01	\$ 0.01

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Income

Nine Months Ended September 30, 2005

(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$409,692	\$409,692
Cost of revenues	368,194	367,343
	41,498	42,349
General and administrative expenses	7,180	7,186
Provision for uncollectible accounts		
Impairment losses		
Operating income	34,318	35,163
Foreign currency exchange gain	(343)	(343)
Interest and other income	(250)	(250)
Interest expense	12,398	12,398
Income before income taxes	22,513	23,358
Provision for income taxes	7,300	7,582
Net income	15,213	15,776
Less: Preferred stock dividends and accretion	509	509
Net income applicable to common and common equivalent shares	\$ 14,704	\$ 15,267
Income per common and common equivalent share:		
Basic	\$ 0.17	\$ 0.18
Diluted	\$ 0.17	\$ 0.18

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Income

Nine Months Ended September 30, 2004

(Unaudited)

(In thousands, except share data)	As Previously Reported	Restated
Revenues	\$319,733	\$319,733
Cost of revenues	296,110	295,355
	23,623	24,378
General and administrative expenses	6,993	7,001
Provision for uncollectible accounts		
Impairment losses		
Operating income	16,630	17,377
Foreign currency exchange loss	217	217
Interest and other income	(1,255)	(1,255)
Interest expense	10,885	10,885
Income before income taxes	6,783	7,530
Provision for income taxes	2,578	2,842
Net income	4,205	4,688
Less: Preferred stock dividends and accretion	713	713
Net income applicable to common and common equivalent shares	\$ 3,492	\$ 3,975
Income per common and common equivalent share:		
Basic	\$ 0.04	\$ 0.05
Diluted	\$ 0.04	\$ 0.05

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Comprehensive Income

Three Months Ended September 30, 2005

(Unaudited)

(In thousands)	As Previously Reported	Restated
Net income	\$5,045	\$5,272
Other comprehensive income (loss):		
Foreign currency translation adjustments	1,878	1,878
Comprehensive income	\$6,923	\$7,150

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Comprehensive Income

Three Months Ended September 30, 2004

(Unaudited)

(In thousands)	As Previously Reported	Restated
Net income	\$ 960	\$1,155
Other comprehensive income (loss):		
Foreign currency translation adjustments	1,706	1,706
Comprehensive (loss) income	\$2,666	\$2,861

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Comprehensive Income

Nine Months Ended September 30, 2005

(Unaudited)

(In thousands)	As Previously Reported	Restated
Net income	\$15,213	\$15,776
Other comprehensive income (loss):		
Foreign currency translation adjustments	(445)	(445)
Comprehensive income	\$14,768	\$15,331

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Comprehensive Income

Nine Months Ended September 30, 2004

(Unaudited)

(In thousands)	As Previously Reported	Restated
Net income	\$4,205	\$4,688
Other comprehensive income (loss):		
Foreign currency translation adjustments	(788)	(788)
Comprehensive income	\$3,417	\$3,900

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Cash Flows

Nine Months Ended September 30, 2005

(Unaudited)

(In thousands)	As Previously Reported	Restated
Cash flows from operating activities:		
Net income	\$ 15,213	\$ 15,776
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	18,975	17,658
Stock-based compensation expense		552
Provision for deferred income taxes	6,570	6,851
Gain on sale of assets	(549)	(549)
Change in assets and liabilities, net of acquisitions:		
Increase in accounts and notes receivable	(31,907)	(32,963)
Decrease in inventories	395	395
Increase in other assets	(5,918)	(5,326)
Decrease in accounts payable	1,822	1,822
Increase in accrued liabilities and other	14,233	14,618
Net cash provided by operations	18,834	18,834
Cash flows from investing activities:		
Capital expenditures	(25,348)	(25,348)
Proceeds from sale of property, plant and equipment	1,022	1,022
Acquisitions, net of cash acquired	(840)	(840)
Net cash used in investing activities	(25,166)	(25,166)
Cash flows from financing activities:		
Net borrowings on lines of credit	6,415	6,415
Principal payments on notes payable and long-term debt	(5,890)	(5,890)
Long-term borrowings	4,855	4,855
Proceeds from exercise of stock options and ESPP	4,942	4,942
Preferred stock dividends	(375)	(375)
Net cash provided by financing activities	9,947	9,947
Effect of exchange rate changes	(319)	(319)
Net increase in cash and cash equivalents	3,296	3,296
Cash and cash equivalents at beginning of year	7,022	7,022
Cash and cash equivalents at end of year	\$ 10,318	\$ 10,318

Table of Contents

Newpark Resources, Inc.

Consolidated Statement of Cash Flows

Nine Months Ended September 30, 2004

(Unaudited)

(In thousands)	As Previously Reported	Restated
Cash flows from operating activities:		
Net income	\$ 4,205	\$ 4,688
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	15,340	14,636
Stock-based compensation expense		440
Provision for deferred income taxes	2,008	2,268
Gain on sale of assets	(15)	(15)
Change in assets and liabilities, net of acquisitions:		
Decrease in restricted cash	8,029	8,029
Increase in accounts and notes receivable	(7,806)	(12,445)
(Increase) decrease in inventories	(105)	1,474
Increase in other assets	(5,385)	(2,854)
Decrease in accounts payable	(4,156)	(4,156)
Increase in accrued liabilities and other	1,040	1,090
Net cash provided by operations	13,155	13,155
Cash flows from investing activities:		
Capital expenditures	(14,224)	(14,224)
Proceeds from sale of property, plant and equipment	336	336
Payment received on former shipyard operation note receivable	6,328	6,328
Net cash used in investing activities	(7,560)	(7,560)
Cash flows from financing activities:		
Net payments on lines of credit	(19,345)	(19,345)
Long-term borrowings	13,213	13,213
Proceeds from exercise of stock options and ESPP	631	631
Preferred stock dividends paid in cash	(450)	(450)
Net cash used in financing activities	(5,951)	(5,951)
Effect of exchange rate changes	(5)	(5)
Net decrease in cash and cash equivalents	(361)	(361)
Cash and cash equivalents at beginning of year	4,692	4,692
Cash and cash equivalents at end of year	\$ 4,331	\$ 4,331

Table of Contents**Supplemental selected quarterly financial data:**

	Quarter Ended			
	Mar 31 (Restated)	Jun 30 (Restated)	Sep 30 (Restated)	Dec 31 (Restated) (1)
(In thousands, except per share amounts)				
Fiscal Year 2005				
Revenues	\$ 129,053	\$ 141,496	\$ 139,143	\$ 145,326
Operating income	12,359	12,210	10,594	14,404(2)
Net income	5,199	4,855	5,213	7,005(2)
Net income per share:				
Basic	0.06	0.06	0.06	0.08
Diluted	0.06	0.06	0.06	0.08
Fiscal Year 2004				
Revenues	\$ 104,309	\$ 104,633	\$ 110,790	\$ 113,690
Operating income	6,416	5,391	5,569	4,286(3)
Net income	1,526	1,519	930	584(3)
Net income per share:				
Basic	0.02	0.02	0.01	0.00
Diluted	0.02	0.02	0.01	0.00

(1) The impact of the restatement on the quarter ended December 31, 2005 was \$2.2 million decrease to revenues, \$245,000 increase to operating income, \$79,000 increase to net income and no impact to basic or diluted net income per share. The impact on the quarter ended December 31, 2004 was \$91,000 increase to operating income, \$58,000 increase to net income and a \$0.01 increase in basic and diluted net income per share.

- (2) In the quarter ended December 31, 2005, Newpark recorded recoveries under insurance policies, net of losses, in the amount of \$1.5 million in connection with damages sustained in the third and fourth quarters of 2005 as a result of Hurricanes Katrina and Rita.
- (3) In the quarter ended December 31, 2004, Newpark recorded an impairment loss of \$3.4 million due to the other-than-temporary impairment of an investment in convertible, redeemable preferred stock of a company that owns thermal desorption technology.

R. Segment and Related Information

Newpark's three business units have separate management teams and infrastructures that offer different products and services to a homogenous customer base. The business units form the three reportable segments of Fluids Systems & Engineering, Mat & Integrated Services and Environmental Services. Intersegment revenues are generally recorded at cost for items which are included in property, plant and equipment of the purchasing segment, and at standard markups for items which are included in cost of revenues of the purchasing segment.

Fluids Systems & Engineering: This segment provides drilling fluids systems and engineering services and onsite drilling fluids management services. The primary operations for this segment are in the U.S. Gulf Coast, the U.S. Central region (including the U.S. Rocky Mountains, Oklahoma and West Texas), Canada and areas surrounding the Mediterranean Sea and Eastern Europe. Customers include major multinational, independent and national oil companies.

Mat & Integrated Services: This segment provides prefabricated interlocking mat systems for constructing drilling and work sites. In addition, the segment provides fully-integrated onsite

Table of Contents

and offsite environmental services, including site assessment, pit design, construction and drilling waste management, and regulatory compliance services. The primary markets served include the U.S. Gulf Coast and Canada. The principal customers are major independent and multi-national companies. In addition, this segment provides temporary work site services to the pipeline, electrical utility and highway construction industries principally in the Southeastern portion of the United States.

Environmental Services: This segment provides disposal services for both oilfield E&P waste and E&P waste contaminated with naturally occurring radioactive material. The primary method used for disposal is low pressure injection into environmentally secure geologic formations deep underground. The primary operations for this segment are in the U.S. Gulf Coast market. This segment also operates in the U.S. Midcontinent and Canada. Customers include major multinational and independent oil companies. This segment also includes the results of Newpark's water treatment operation.

During August and September of 2005, Newpark's fluids systems and engineering and environmental services operations along the Gulf Coast were affected by Hurricanes Katrina and Rita. As a result, in 2005 Newpark recorded net reductions to cost of revenues of \$641,000 in the fluids systems and engineering segment and \$854,000 in the environmental services segment reflecting net insurance recoveries.

In 2004, Newpark recorded an impairment loss of \$3.4 million due to the other-than-temporary impairment of an investment in convertible, redeemable preferred stock of a company that owns thermal desorption technology. At December 31, 2003, this investment was reported in Other in the Segment Assets table that follows.

Table of Contents

Summarized financial information concerning Newpark's reportable segments follows:

(In thousands)	Years Ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Revenues (1)			
Fluids Systems & Engineering	\$384,210	\$272,946	\$215,643
Mat & Integrated Services	109,653	96,160	88,059
Environmental Services	61,285	64,477	68,808
Eliminations	(130)	(161)	(250)
Total Revenues	\$555,018	\$433,422	\$372,260
 (1) Segment revenues include the following intersegment transfers:			
Fluids Systems & Engineering	\$ 2	\$ 9	\$ 152
Mat & Integrated Services	128	152	98
Total Intersegment Transfers	\$ 130	\$ 161	\$ 250
 Depreciation and Amortization			
Fluids Systems & Engineering	\$ 9,564	\$ 7,505	\$ 7,088
Mat & Integrated Services	9,543	7,035	8,698
Environmental Services	4,339	4,215	4,073
Other	1,035	1,000	566
Depreciation and Amortization	\$ 24,481	\$ 19,755	\$ 20,425
 Operating Income			
Fluids Systems & Engineering	\$ 40,589	\$ 21,524	\$ 11,563
Mat & Integrated Services	13,054	5,618	437
Environmental Services	6,312	8,113	12,878
Total Segment Gross Profit	59,955	35,255	24,878
General and administrative expenses	(9,545)	(9,394)	(5,813)
Impairment losses and provision for uncollectible accounts	(843)	(4,199)	(1,350)
Total Operating Income	\$ 49,567	\$ 21,662	\$ 17,715
 Segment Assets			
Fluids Systems & Engineering	\$330,932	\$281,347	\$253,526
Mat & Integrated Services	121,925	111,083	115,769
Environmental Services	166,040	162,654	160,362
Other	32,397	32,287	42,375

Total Assets	\$651,294	\$587,371	\$572,032
Capital Expenditures			
Fluids Systems & Engineering	\$ 14,592	\$ 11,053	\$ 14,038
Mat & Integrated Services	7,494	4,184	2,685
Environmental Services	12,591	3,871	3,829
Other	1,107	2,575	2,174
Total Capital Expenditures	\$ 35,784	\$ 21,683	\$ 22,726

Table of Contents

The following table sets forth information about Newpark's operations by geographic area:

(In thousands)	Years Ended December 31,		
	2005 (Restated)	2004 (Restated)	2003 (Restated)
Revenue			
Domestic	\$457,423	\$359,325	\$285,244
Canada	56,809	40,070	50,312
Mediterranean areas	40,268	34,027	36,704
Mexico	518		
Total Revenue	\$555,018	\$433,422	\$372,260
Operating Income (Loss)			
Domestic	\$ 45,250	\$ 21,898	\$ 12,468
Canada	915	(427)	2,797
Mediterranean areas	3,277	551	2,450
Mexico	125	(360)	
Total Operating Income (Loss)	\$ 49,567	\$ 21,662	\$ 17,715
Assets			
Domestic	\$549,693	\$496,394	\$486,543
Canada	46,856	43,067	38,575
Mediterranean areas	53,401	39,988	46,914
Mexico	1,344	7,922	
Total Assets	\$651,294	\$587,371	\$572,032

S. Condensed Consolidating Financial Information

On December 17, 1997, Newpark issued \$125 million of unsecured Senior Subordinated Notes (the "Notes"), which mature on December 15, 2007. The Notes are fully and unconditionally guaranteed, on a joint and several basis, by certain wholly-owned subsidiaries of Newpark. Each of the guarantees is an unsecured obligation of the guarantor and ranks equal in right of payment with the guarantees provided by and the obligations of the guarantor subsidiaries under the Credit Facility. Each guarantee also ranks equal in right of payment with all existing and future unsecured indebtedness of the guarantor for borrowed money that is not, by its terms, expressly subordinated in right of payment to the guarantee. The net proceeds from the issuance of the Notes were used by Newpark to repay outstanding revolving indebtedness and for general corporate purposes, including working capital, capital expenditures and acquisitions of businesses.

Newpark has redeemed the Notes subsequent to December 31, 2005 as further described in Note T.

Table of Contents

The following condensed consolidating balance sheets as of December 31, 2005 and 2004 and the related condensed consolidating statements of income and cash flows for the years ended December 31, 2005, 2004 and 2003 should be read in conjunction with the notes to these consolidated financial statements:

**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2005 (RESTATED)**

(In thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	\$ 3,249	\$ 1,329	\$ 3,411	\$	\$ 7,989
Accounts receivable, net		108,718	34,912	(6,456)	137,174
Inventories		67,497	21,234		88,731
Other current assets	19,003	14,150	10,328	(1,179)	42,302
Total current assets	22,252	191,694	69,885	(7,635)	276,196
Investment in subsidiaries	495,979			(495,979)	
Property and equipment, net	9,902	221,770	6,737		238,409
Goodwill		95,114	21,727		116,841
Identifiable intangibles, net		10,541	2,268		12,809
Other assets, net	22,863	1,867	984	(18,675)	7,039
Total assets	\$550,996	\$520,986	\$101,601	\$(522,289)	\$651,294
Current liabilities:					
Foreign bank lines of credit	\$	\$	\$ 10,890	\$	\$ 10,890
Current portion of long-term debt	7,180	5,448	68		12,696
Accounts payable	1,337	30,803	17,300	(2,069)	47,371
Accrued liabilities	6,209	26,215	13,739	(5,432)	40,731
Total current liabilities	14,726	62,466	41,997	(7,501)	111,688
Long-term debt	181,011	3,963	17,751	(16,792)	185,933
Other non-current liabilities	8,534	(1,802)	2,233	(2,017)	6,948
Common stock	884	807	12,750	(13,557)	884
Paid-in capital	436,636	440,045	22,044	(462,089)	436,636
Unearned restricted stock	(235)				(235)
Cumulative translation adjustment	7,616		5,201	(5,201)	7,616
Retained deficit	(98,176)	15,507	(375)	(15,132)	(98,176)
Total stockholders' equity	346,725	456,359	39,620	(495,979)	346,725

Total liabilities and equity	\$550,996	\$520,986	\$101,601	\$(522,289)	\$651,294
------------------------------	-----------	-----------	-----------	-------------	-----------

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2004 (RESTATED)**

(In thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	\$ 1,954	\$ 1,200	\$ 3,868	\$	\$ 7,022
Accounts receivable, net		82,651	20,096	(2,160)	100,587
Inventories		65,158	18,886		84,044
Other current assets	15,814	7,744	8,967	(484)	32,041
Total current assets	17,768	156,753	51,817	(2,644)	223,694
Investment in subsidiaries	458,257			(458,257)	
Property and equipment, net	3,814	198,648	6,327		208,789
Goodwill		95,114	22,300		117,414
Identifiable intangibles, net		7,130	2,640		9,770
Other assets, net	26,122	18,580	776	(17,774)	27,704
Total assets	\$ 505,961	\$476,225	\$83,860	\$(478,675)	\$ 587,371
Current liabilities:					
Foreign bank lines of credit	\$	\$	\$ 8,017	\$	\$ 8,017
Current portion of long-term debt	1,250	3,748	33		5,031
Accounts payable	956	30,868	9,158	(2,160)	38,822
Accrued liabilities	5,736	11,583	10,606	(484)	27,441
Total current liabilities	7,942	46,199	27,814	(2,644)	79,311
Long-term debt	177,861	4,083	18,372	(14,030)	186,286
Other non-current liabilities	502	(1,104)	2,720		2,118
Preferred stock	20,000				20,000
Common stock	840	807	12,750	(13,557)	840
Paid-in capital	411,537	444,905	21,397	(466,302)	411,537
Unearned restricted stock	(472)				(472)
Cumulative translation adjustment	8,199		3,740	(3,740)	8,199
Retained deficit	(120,448)	(18,665)	(2,933)	21,598	(120,448)
Total stockholders' equity	319,656	427,047	34,954	(462,001)	319,656
Total liabilities and equity	\$ 505,961	\$476,225	\$83,860	\$(478,675)	\$ 587,371

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2005 (RESTATED)**

(In thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$	\$457,423	\$97,595	\$	\$555,018
Cost of revenues		404,567	90,496		495,063
		52,856	7,099		59,955
General and administrative expense	7,057		2,488		9,545
Provision for uncollectible accounts		774	69		843
Operating income (loss)	(7,057)	52,082	4,542		49,567
Other (income) expense	1,470	(106)	(2,043)		(679)
Interest expense	11,948	798	3,409		16,155
Income (loss) before income taxes	(20,475)	51,390	3,176		34,091
Income taxes (benefit)	(6,526)	17,218	618		11,310
Equity in earnings of subsidiaries	36,730			(36,730)	
Net income (loss)	\$ 22,781	\$ 34,172	\$ 2,558	\$(36,730)	\$ 22,781

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**

(In thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$	\$359,325	\$74,097	\$	\$433,422
Cost of revenues		326,099	72,068		398,167
		33,226	2,029		35,255
General and administrative expense	7,129		2,265		9,394
Provision for uncollectible accounts		800			800
Impairment losses	3,399				3,399

Edgar Filing: NEWPARK RESOURCES INC - Form 10-K/A

Operating income (loss)	(10,528)	32,426	(236)		21,662
Other (income) expense	(856)	(462)	(328)		(1,646)
Interest expense	12,263	575	1,959		14,797
Income (loss) before income taxes	(21,935)	32,313	(1,867)		8,511
Income taxes (benefit)	(8,007)	11,882	(861)		3,014
Equity in earnings of subsidiaries	19,425			(19,425)	
Net income (loss)	\$ 5,497	\$ 20,431	\$ (1,006)	\$ (19,425)	\$ 5,497

126

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2003 (RESTATED)**

(In thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$	\$285,244	\$87,016	\$	\$372,260
Cost of revenues		267,757	79,625		347,382
		17,487	7,391		24,878
General and administrative expense	3,480		2,333		5,813
Provision for uncollectible accounts		1,000			1,000
Impairment losses		350			350
Operating income (loss)	(3,480)	16,137	5,058		17,715
Other (income) expense	568	(247)	(1,785)		(1,464)
Interest expense	11,756	686	2,809		15,251
Income (loss) before income taxes	(15,804)	15,698	4,034		3,928
Income taxes (benefit)	(5,925)	6,228	1,981		2,284
Equity in earnings of subsidiaries	11,523			(11,523)	
Net income (loss)	\$ 1,644	\$ 9,470	\$ 2,053	\$(11,523)	\$ 1,644

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005 (RESTATED)**

(In thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$(23,047)	\$ 42,511	\$ 9,632	\$	\$ 29,096
Net cash provided by (used in) investing activities:					
Capital expenditures, net of sales and insurance proceeds	(4,857)	(26,347)	(1,744)		(32,948)
Acquisition, net of cash acquired	(881)				(881)
Investments	21,487	(9,638)	(11,849)		

Edgar Filing: NEWPARK RESOURCES INC - Form 10-K/A

	15,749	(35,985)	(13,593)	(33,829)
Net cash provided by (used in) financing activities:				
Net borrowings (payments) on lines of credit, notes payable and long-term debt	2,913	(6,397)	3,875	391
Other	5,680			5,680
	8,593	(6,397)	3,875	6,071
Effect of exchange rate changes			(371)	(371)
Net increase (decrease) in cash and cash equivalents	1,295	129	(457)	967
Cash and cash equivalents:				
Beginning of period	1,954	1,200	3,868	7,022
End of period	\$ 3,249	\$ 1,329	\$ 3,411	\$ 7,989

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**

(In thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ (24,709)	\$ 38,777	\$ 7,454	\$	\$ 21,522
Net cash provided by (used in) investing activities:					
Capital expenditures, net of sales proceeds	(2,576)	(17,174)	(1,538)		(21,288)
Investments	20,684	(15,895)	(4,789)		
Payment received on former shipyard operation note receivable	6,328				6,328
	24,436	(33,069)	(6,327)		(14,960)
Net cash provided by (used in) financing activities:					
Net borrowings (payments) on lines of credit, notes payable and long-term debt	1,613	(4,148)	(2,398)		(4,933)
Other	435				435
	2,048	(4,148)	(2,398)		(4,498)
Effect of exchange rate changes			266		266
Net increase (decrease) in cash and cash equivalents	1,775	1,560	(1,005)		2,330
Cash and cash equivalents:					
Beginning of period	179	(360)	4,873		4,692
End of period	\$ 1,954	\$ 1,200	\$ 3,868	\$	\$ 7,022

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003 (RESTATED)**

(In thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$(30,423)	\$ 38,785	\$ (810)	\$	\$ 7,552
Net cash provided by (used in) investing activities:					
Capital expenditures, net of sales proceeds	(2,174)	(16,524)	(3,345)		(22,043)
Investments	17,001	(19,108)	2,107		
	14,827	(35,632)	(1,238)		(22,043)
Net cash provided by (used in) financing activities:					
Net borrowings (payments) on lines of credit, notes payable and long-term debt	15,000	(3,755)	4,084		15,329
Other	303				303
	15,303	(3,755)	4,084		15,632
Effect of exchange rate changes			826		826
Net increase (decrease) in cash and cash equivalents	(293)	(602)	2,862		1,967
Cash and cash equivalents:					
Beginning of period	472	242	2,011		2,725
End of period	\$ 179	\$ (360)	\$ 4,873	\$	\$ 4,692

T. Subsequent Events*Litigation*

Between April 21, 2006 and May 9, 2006, five lawsuits asserting claims against Newpark for violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and SEC Rule 10b-5 were filed in the U.S. District Court for the Eastern District of Louisiana: *Kim vs. Newpark Resources, Inc. (the Kim Suit)*; *Lowry vs. Newpark Resources, Inc.*; *Galchutt vs. Newpark Resources, Inc.*; *Wallace vs. Newpark Resources, Inc.*; and *Farr vs. Newpark Resources, Inc.* Additionally, all five complaints assert that James D. Cole, Newpark's former Chief Executive Officer and Matthew W. Hardey, Newpark's former Chief Financial Officer are liable for Newpark's violations as control persons under Section 20(a) of the Exchange Act. The latter four lawsuits have been transferred to the judge presiding over the Kim Suit who has consolidated all five actions as *In re: Newpark Resources, Inc. Securities Litigation*. The judge has set a deadline for the lead plaintiff's counsel to file an amended, consolidated class action complaint by October 16, 2006, which date the parties are asking to extend by agreement to 30 days after the filing of Newpark's Form 10-K/A for the year ended December 31, 2005.

The complaints, asserting unspecified damages, allege that Newpark's April 17, 2006 press release concerning the internal investigation into potential irregularities in the processing and payment of invoices at one of its subsidiaries, Soloco Texas, LP (Soloco), establishes that Newpark misrepresented or omitted to disclose to the investing public irregularities in the processing and payment of invoices at Soloco and a lack of internal controls and flawed accounting practices and, consequently, that Newpark did not prepare its financial statements according to generally accepted accounting principles.

Table of Contents

On August 17, 2006, a shareholder derivative action was filed in the 24th Judicial District Court for the Parish of Jefferson, captioned: *Victor Dijour, Derivatively on Behalf of Nominal Defendant Newpark Resources, Inc., v. James D. Cole, et al.* This action was brought allegedly for the benefit of Newpark which is sued as a nominal defendant, against Messrs. Cole, Hardey, William Thomas Ballantine, Newpark's former Chief Operating Officer, President and Director; and directors David P. Hunt, Alan J. Kaufman, Roger C. Stull and James H. Stone. The plaintiffs allege improper granting, recording and accounting of backdated grants of Newpark's stock options to its executives from 1994 to 2000. To date, no discovery has been conducted. Newpark intends to contest vigorously the plaintiffs' right to bring this case. The plaintiffs do not seek any recovery against Newpark. Instead, they seek unspecified damages from the individual defendants on Newpark's behalf for alleged breach of fiduciary duty, and against Messrs. Cole and Hardey for alleged unjust enrichment. Pursuant to previously existing indemnification agreements, Newpark will indemnify the officer and director defendants for the fees they incur to defend themselves.

On August 28, 2006, a second shareholder derivative action was filed in the 24th Judicial District Court for the Parish of Jefferson, captioned: *James Breaux, Derivatively on Behalf of Nominal Defendant Newpark Resources, Inc., v. James D. Cole, et al.* This action was brought, allegedly for the benefit of Newpark which is sued as a nominal defendant, against Messrs. Cole, Hardey, Ballantine, and directors David P. Hunt, Alan J. Kaufman, Roger C. Stull and James H. Stone, alleging improper backdating of stock option grants to Newpark executives, improper recording and accounting of the backdated stock option grants and producing and disseminating false financial statements and other SEC filings to Newpark shareholders and the market. To date, no discovery has been conducted. Newpark intends to vigorously contest the plaintiffs' right to bring this case. Plaintiffs do not seek any recovery against Newpark. Instead, they seek unspecified damages from the individual defendants on behalf of Newpark for alleged breach of fiduciary duty, and against Messrs. Cole, Hardey and Ballantine for alleged unjust enrichment. Pursuant to previously existing indemnification agreements, Newpark will indemnify the officer and director defendants for the fees they incur to defend themselves.

Newpark has retained counsel to defend its interests. Newpark has given appropriate notice under its directors' and officers' coverage to its insurance carrier, which has issued a reservation of rights letter. Management cannot predict whether these lawsuits will have a material effect on Newpark's consolidated financial position, statements of operations or cash flows.

With regard to the shareholder derivative actions referenced above, the Executive Committee of the Board of Directors has created a Special Litigation Committee to review the allegations and the Special Litigation Committee has retained outside counsel to assist it.

Business Interruption Recovery

In the third quarter of 2006, Newpark received the final settlement of its business interruption coverage related to losses incurred as a result of Hurricanes Katrina and Rita. The total amount received and recorded as a reduction to cost of revenues in the quarter ended September 30, 2006 was approximately \$4.2 million.

Closing of Subsidiary

On August 24, 2006, management of the Company with the approval of the Executive Committee of the Board of Directors of Newpark determined to shut down the operations of Newpark Environmental Water Solutions, LLC, or NEWS, and to dispose of or redeploy all of the assets used in connection with its operations. NEWS was formed in early 2005 to commercialize in the United States and Canada a proprietary and patented water treatment technology owned by a Mexican company. In connection with the shut-down, Newpark currently expects to recognize in 2006 a non-cash pre-tax impairment charge of approximately \$20.0 million against the assets attributable to the water treatment business. This

Table of Contents

estimated impairment charge relates to the write-down of investments in property, plant and equipment of approximately \$18.0 million and advances and other capitalized costs associated with certain agreements of approximately \$2.0 million.

In addition, Newpark expects to incur pre-tax cash charges for severance and other exit costs in the range of \$4.0 million to \$4.5 million, including severance costs of approximately \$500,000 and site closure costs of approximately \$3.5 million to \$4.0 million, which will be expensed as incurred, with the majority of these costs expected to be incurred in 2006 and 2007.

The reasons for this action include the following:

following continued negotiations in late July 2006, Newpark's conclusion that a satisfactory agreement with the owners of the technology could not be reached,

receipt of a report from outside consultants in August 2006 regarding the evaluation of the water treatment market and the technology,

difficulty in utilizing the technology on a consistently reliable basis,

losses incurred by NEWS to date, and

the prospect that the business will incur substantial future losses due to the inability to re-negotiate a disposal contract for the Gillette, Wyoming, facility in August 2006 and recent receipt of waste streams that have become increasingly more costly to process.

By shutting down the operations of NEWS at this time, Newpark believes that it will avoid substantial future losses and negative operating cash flows related to this business, once all exit costs are incurred. Excluding depreciation, the operating loss for NEWS during the first six months of 2006 was approximately \$2.0 million and for the month of July 2006 was approximately \$450,000.

In mid-September 2006, Newpark started to shut down the facilities and will start the site closure process as soon as all existing projects have been completed. In addition, Newpark has begun the process of exploring possible sale of existing equipment and facilities.

In response to Newpark's announcement to shut down the operations of NEWS as disclosed in Newpark's Current Report on Form 8-K filed on August 30, 2006, and as described above, on September 28, 2006, Newpark received a letter from counsel for the Mexican company demanding, among other things, that Newpark return to the Mexican company certain equipment and pay it an aggregate of \$4.0 million for the period that this equipment was utilized, technical support and administrative costs, unreimbursed costs of the equipment, and lost profits due to the Mexican company's dedication of time to Newpark's water treatment business. The Mexican company demanded payment within 30 days of the date of the letter. While Newpark's preliminary view is that it is not obligated to pay any amounts to the Mexican company, it is reviewing the letter received from counsel for the Mexican company and will respond in due course.

Term Credit Agreement

On August 18, 2006, Newpark entered into a Term Credit Agreement (Term Credit Facility) with certain lenders, JPMorgan Chase Bank, N.A., as administrative agent, and Wilmington Trust Company, as collateral agent. This Term Credit Facility obtained pursuant to this agreement in the aggregate face amount of \$150.0 million, has a five-year term and an initial interest rate of LIBOR plus 3.25%, based on Newpark's corporate family ratings of B1 by Moody's and B+ by Standard & Poor's. The maturity date of the Term Credit Facility is August 18, 2011.

Table of Contents

The Term Credit Facility requires that Newpark will enter into, and thereafter maintain, rate management transactions, such as interest rate swap arrangements, to the extent necessary to provide that at least 50% of the aggregate principal amount of the Term Credit Facility is subject to either a fixed interest rate or interest rate protection for a period of not less than three years. In connection with this provision, Newpark entered into an interest rate swap arrangement for the period from September 22, 2006 through March 22, 2008, which fixes the LIBOR rate applicable to 100% of the principal amount under the Term Credit Facility at 5.35%. In addition, Newpark entered into an interest rate cap arrangement that provides for a maximum LIBOR rate of 6.00% on the principal amount of \$68.9 million for the period from March 22, 2008 through September 22, 2009. Newpark paid a fee of \$170,000 for the interest rate cap arrangement, which is expected to be expensed during the period covered by the arrangement.

Newpark made a draw down of the entire Term Credit Facility on September 22, 2006, and redeemed the then outstanding 8 5/8% Senior Subordinated Notes, which Newpark refers to as the Notes, in the principal amount of \$125.0 million plus accrued interest. In addition, Newpark repaid the barite facilities financing and the term portion of the current facility. The Term Credit Facility is a senior secured obligation of ours and is secured by first liens on all of Newpark's tangible and intangible assets, excluding accounts receivable and inventory, and by a second lien on accounts receivable and inventory. The Term Credit Facility is callable at face value, except for a 1% call premium if called at any time during the first year.

In connection with the redemption of the Notes and the payout of the other term debt, Newpark expensed the unamortized balance of debt issuance costs related to these debt instruments. The total expected charge of approximately \$838,000 for the write off of unamortized debt issuance costs will be recorded in the third quarter of 2006. In addition, the prepayment of the barite facilities financing resulted in a prepayment penalty of approximately \$369,000, which also will be recorded in the third quarter of 2006.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

As further described in the Explanatory Note and in Note A to the Consolidated Financial Statements contained in this Annual Report on Form 10-K/A, this report contains the restatement of our historical consolidated financial statements. The material accounting errors that ultimately resulted in the restatement of our historical consolidated financial statements were determined to have resulted from certain material weaknesses in our internal controls. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. As a result of the conclusions reached during the independent investigation initiated by our Audit Committee, we have concluded that the following material weaknesses existed at December 31, 2005:

Control Environment. We did not maintain an effective control environment based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in a report entitled *Internal Controls Integrated Framework*. Specifically, we did not maintain controls adequate to prevent or detect intentional override of or intervention with our controls or intentional misconduct by certain former members of senior management. This ineffective control environment permitted those former members of senior management to override certain controls. As a result of these overrides, a number of transactions were not properly accounted for in our consolidated financial statements, which resulted in the need to restate our historical consolidated financial statements. Additionally, we did not adequately monitor certain of our control practices or foster an environment that allowed for a

Table of Contents

consistent and open flow of information and communication between those who initiated transactions and those who were responsible for the financial reporting of those transactions, principally at one of our subsidiaries, Soloco, Inc. Specifically, former senior management entered into licensing agreements with a third-party vendor that lacked commercial and economic substance or proper supporting documentation resulting in the inappropriate capitalization of assets. Former senior management also authorized several sales transactions to this same third-party that lacked economic substance or proper supporting documentation, resulting in the overstatement of earnings in certain periods. Additional transactions with this third-party, which also lacked commercial and economic substance, were authorized by the same former senior management in order to unwind the sale transactions. This control deficiency resulted in the failure to detect misstatements that would have reduced income before income taxes for periods prior to December 31, 2005, by approximately \$3.2 million.

Controls over the Recording of Intangible Assets. We did not maintain effective controls over the recording of intangible assets to ensure that the amortization period for intangibles assets properly reflected the estimated economic life of the asset. As a result of this control deficiency, the amortization period assigned to certain intangible assets exceeded the duration of the licenses (and the underlying patents to which the licenses related). This control deficiency resulted in the failure to detect misstatements that would have reduced the carrying value of intangible assets for periods prior to December 31, 2005, by approximately \$3.0 million.

Controls over Stock-based Compensation Expense. We did not maintain effective controls over the accounting for and disclosure of our stock-based compensation expense. Specifically, effective controls, including monitoring, were not maintained to ensure the existence and completeness of approvals for stock option grants. Also, our controls were not effective to ensure the proper measurement of expense under Accounting Principles Board Opinion 25 concerning the proper recognition of the grant date, measurement date and fair value of the awards on those dates. This control deficiency resulted in the failure to detect misstatements of our stock-based compensation expense for periods prior to December 31, 2005 in the amount of approximately \$10.6 million, on a pre-tax basis.

We have revised our historical financial results for the period from December 31, 2001 to December 31, 2005. This restatement, as well as specific information regarding its impact, is discussed in Note A to the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data. Restatement of previously issued financial statements to reflect the correction of misstatements is an indicator of the existence of a material weakness in internal control over financial reporting as defined in the Public Company Accounting Oversight Board's Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. We have identified deficiencies in our internal controls that did not prevent or detect intentional override or intervention with controls or the incorrect accounting for intangible assets or stock-based compensation. In light of the determination that previously issued financial statements should be restated, our management concluded that material weaknesses in internal control over financial reporting existed as of December 31, 2005 and disclosed this matter to the Audit Committee, and our independent registered public accounting firm.

Remediation Plans Related to Material Weaknesses in Internal Control over Financial Reporting

Our management is committed to eliminating the material weaknesses noted above by improving our internal control over financial reporting. Management, along with our Board of Directors, has implemented, or is in the process of implementing, the following changes to our internal control over financial reporting:

1. After reviewing the results of the independent investigation, the former Chief Executive Officer and the former Chief Financial Officer were terminated for cause. The former Soloco Chief Financial Officer also was terminated. Our Board of Directors hired our current Chief Executive Officer, Paul L. Howes, on March 22, 2006, and we have recently hired a new Vice President and Chief Financial Officer, as well as a Chief Administrative Officer and General Counsel, which is a newly created position.

Table of Contents

2. Our current Chief Executive Officer, current senior management and the Board of Directors are committed to setting the proper tone regarding internal control over financial reporting and achieving transparency through effective corporate governance, a strong control environment, business standards reflected in our Code of Business Conduct and Ethics, and financial reporting and disclosure completeness and integrity. Our current Chief Executive Officer has met with all key personnel throughout the organization who have significant roles in the establishment and maintenance of internal control over financial reporting to emphasize our commitment to enhancing those controls.
3. We are in the process of enhancing our Code of Business Conduct and Ethics to include, among other improvements, the mandate that all potential management overrides of internal controls are to be reported directly to the Chief Administrative Officer and General Counsel. We are in the process of establishing procedures to ensure that our Code of Business Conduct and Ethics and all corporate governance policies are made available to all employees and that an annual certification of adherence to these policies is obtained from all personnel considered key to our control environment.
4. We have hired a President of the Mat and Integrated Services business segment. This new position was established to afford greater control and transparency over the individual business units operating within this business segment. This new president has hired a new controller and is currently in the process of hiring a new chief financial officer for the business segment and has been working with the current operating and financial personnel to establish the following improvements in internal control:
 - We are in the process of evaluating any inconsistencies in established internal controls among the reporting units and will modify controls to ensure consistency as appropriate.
 - We have established additional controls surrounding the purchasing of products and services, including the requirement for segregation of all purchasing, receiving and payables processing functions.
 - We have established a monthly reconciliation process for all mat purchases, whether for resale or for rental, and a quarterly physical inventory count process performed by individuals independent of the mat accounting functions. These count procedures will be reviewed by our internal audit department at least twice per year.
5. We are in the process of enhancing our fraud hotline through the outsourcing of this hotline to an independent company.
6. We have established a Disclosure Committee, consisting of senior management from the corporate office and significant reporting units, and outside counsel. The Disclosure Committee will meet at least quarterly and is responsible for reviewing all quarterly and annual reports prior to filing as well as deciding, as needed, disclosure issues related to current reports.
7. We are in the process of implementing procedures with significant vendors to confirm on an annual basis that no side agreements exist with the vendor and us, our subsidiaries or employees. This confirmation process will be monitored and controlled by our internal audit department.
8. To enhance our preventative controls related to the possibility of a circular transaction, we are in the process of implementing a policy that requires approval prior to entering into a transaction to sell products or services to an established vendor. The approval of two of our executive officers will be required if that sale transaction or series of transactions is greater than \$1 million.

Table of Contents

9. We are in the process of implementing a mandatory consecutive one-week vacation policy for all personnel who work in the payables or cash management departments to enhance our ability to detect and prevent circumvention of controls in these areas.
10. We have implemented a policy that requires an independent third-party valuation of material intangible assets and independent recommendations for the amortization period prior to recording any acquisitions of those assets. In addition, as an enhancement to our established quarterly review procedure of discussing asset impairments with key operating and financial personnel, we will create an Intellectual Property Committee consisting of the Chief Administrative Officer and General Counsel, Chief Accounting Officer and Chief Financial Officer that will be responsible for the oversight of all amortizing and non-amortizing intangible assets, including the annual review of impairment of these assets. For all material intangible assets, this committee will make decisions regarding the use of independent third parties for annual assessments.

In 2003, our stock option approval policies and procedures were changed to allow for annual grants of options to be made primarily on the date of our annual shareholders meeting. In addition, we have changed our stock option approval policies to require that any grant of options to an incoming employee will be priced at the closing price of the stock on the date of employment and that those option grants will require contemporaneous approval by our Compensation Committee.

a) Evaluation of Disclosure Controls and Procedures

Our current Chief Executive Officer and current acting Chief Financial Officer, with the participation of management, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Annual Report on Form 10-K/A. Based on their evaluation, they have concluded that our disclosure controls and procedures as of the end of the period covered by this report were not adequate to ensure that (1) information required to be disclosed by us in the reports filed or furnished by us under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and (2) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on that evaluation, our current Chief Executive Officer and Acting Chief Financial Officer have concluded that our disclosure controls and procedures as of the end of the period covered by this report were not effective at reaching a reasonable level of assurance of achieving the desired objective because of the material weaknesses in our internal control over financial reporting discussed above.

b) Management's Report on Internal Control over Financial Reporting (Revised)

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13(a)-15(f). Our internal control system over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in a report entitled Internal Control Integrated Framework. In our Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on March 14, 2006, management concluded that our internal control over financial reporting was effective as of December 31, 2005. Subsequently, management identified the following material weaknesses in internal control over financial reporting, which existed as of December 31, 2005:

Table of Contents

Failure to maintain adequate controls to prevent or detect intentional override of or intervention with controls or intentional misconduct by members of senior management;

Failure to maintain effective controls over the recording of intangible assets to ensure that the amortization period properly reflected the estimated economic life of the asset; and

Failure to maintain effective controls, including monitoring, to ensure the existence and completeness of approval of stock option grants and ensuring the proper measurement of expense under Accounting Principles Board Opinion 25.

These material weaknesses resulted in errors that caused us to amend our Annual Report on Form 10-K for the year ended December 31, 2005, in order to restate the previously issued financial statements. As a result of these material weaknesses, our management has revised its earlier assessment and has now concluded that our internal control over financial reporting was not effective as of December 31, 2005.

Management's revised assessment of the effectiveness of its internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

c) Changes in Internal Control Over Financial Reporting

As previously reported, there was no other change in our internal control over financial reporting during the quarter ended December 31, 2005, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Report of Independent Registered Public Accounting Firm
on Internal Control Over Financial Reporting**

The Board of Directors and Stockholders
Newpark Resources, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting (Revised), that Newpark Resources, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005 because of the effect of material weaknesses related to its controls to prevent or detect intentional override or intervention with controls, controls over the recording of intangible assets, and controls over stock-based compensation expense based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Newpark Resources, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Table of Contents

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated March 6, 2006, we expressed an unqualified opinion on management's previous assessment that the Company maintained effective internal controls over financial reporting as of December 31, 2005 and an unqualified opinion that the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria. Management has subsequently determined that deficiencies in controls relating to the prevention or detection of intentional override or intervention with controls, controls over the recording of intangible assets, and controls over stock-based compensation expense existed as of the previous assessment date, and has further concluded that such deficiencies represented material weaknesses as of December 31, 2005. As a result, management has revised its assessment, as presented in the accompanying Management's Report on Internal Control over Financial Reporting (Revised), to conclude that the Company's internal control over financial reporting was not effective as of December 31, 2005. Accordingly, our present opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, as expressed herein, is different from that expressed in our previous report.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment:

- § Failure to maintain adequate controls to prevent or detect intentional override of or intervention with controls or intentional misconduct by certain former members of senior management;
- § Failure to maintain effective controls over the recording of intangible assets to ensure that the amortization period properly reflected the estimated economic life of the asset; and
- § Failure to maintain effective controls, including monitoring, to ensure the existence and completeness of approval of stock option grants and ensuring the proper measurement of expense under Accounting Principles Board Opinion 25.

These material weaknesses resulted in restatements of the Company's previously issued interim and annual financial statements as described more fully in Note A to the consolidated financial statements. These material weaknesses were considered in determining the

Table of Contents

nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and this report does not affect our report dated October 7, 2006 on those consolidated financial statements (as restated).

In our opinion, management's assessment that Newpark Resources, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, because of the effects of the material weaknesses described above on the achievement of the objectives of the control criteria, Newpark Resources, Inc. has not maintained effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

/s/ Ernst & Young LLP

New Orleans, Louisiana

October 7, 2006

New York Stock Exchange Required Disclosures

The certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report. Additionally, in 2005, our Chief Executive Officer certified to the New York Stock Exchange (NYSE) that he was not aware of any violation by us of the NYSE's corporate governance listing standards.

ITEM 9B. Other Information

None

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

1. Financial Statements

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets (restated) as of December 31, 2005 and 2004.

Consolidated Statements of Income (restated) for the years ended December 31, 2005, 2004 and 2003.

Consolidated Statements of Comprehensive Income (restated) for the years ended December 31, 2005, 2004 and 2003.

Consolidated Statements of Stockholders' Equity (restated) for the years ended December 31, 2005, 2004 and 2003.

Consolidated Statements of Cash Flows (restated) for the years ended December 31, 2005, 2004 and 2003.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

3. Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K/A.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: October 7, 2006

NEWPARK RESOURCES, INC.

By: /s/ Paul L. Howes
Paul L. Howes
President, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Paul L. Howes Paul L. Howes	President, Chief Executive Officer and Director (Principal Executive Officer)	October 7, 2006
/s/ Eric M. Wingerter Eric M. Wingerter	Vice President of Finance, Controller and Acting Chief Financial Officer (Principal Financial and Accounting Officer)	October 7, 2006
/s/ Jerry W. Box Jerry W. Box	Director	October 9, 2006
/s/ David P. Hunt David P. Hunt	Chairman of the Board	October 7, 2006
/s/ Dr. Alan Kaufman Dr. Alan Kaufman	Director, Member of Audit Committee	October 7, 2006
/s/ James H. Stone James H. Stone	Director	October 9, 2006
/s/ Roger C. Stull Roger C. Stull	Director, Member of Audit Committee	October 7, 2006
/s/ F. Walker Tucei, Jr. F. Walker Tucei, Jr.	Director, Member of Audit Committee	October 7, 2006

/s/ Gary Warren

Director, Member of Audit Committee

October 7, 2006

Gary Warren

/s/ David C. Anderson

Director

October 9, 2006

David Anderson

139

Table of Contents

**NEWPARK RESOURCES, INC.
EXHIBIT INDEX**

- 3.1 Restated Certificate of Incorporation.(6)
- 3.2 Amended and Restated Bylaws.
- 4.1 Indenture, dated as of December 17, 1997, among the registrant, each of the Guarantors identified therein and State Street Bank and Trust Company, as Trustee.(2)
- 4.2 Form of the Newpark Resources, Inc. 8 5/8% Senior Subordinated Notes due 2007, Series B.(2)
- 4.3 Form of Guarantees of the Newpark Resources, Inc. 8 5/8 % Senior Subordinated Notes due 2007. (2)
- 10.1 Employment Agreement, dated as of May 2, 2005, between the registrant and James D. Cole.* (21)
- 10.2 Lease Agreement, dated as of May 17, 1990, by and between Harold F. Bean Jr. and Newpark Environmental Services, Inc.(1)
- 10.3 Lease Agreement, dated as of July 29, 1994, by and between Harold F. Bean Jr. and Newpark Environmental Services, Inc.(3)
- 10.4 Building Lease Agreement, dated April 10, 1992, between the registrant and The Traveler s Insurance Company.(4)
- 10.5 Building Lease Agreement, dated May 14, 1992, between State Farm Life Insurance Company, and Soloco, Inc.(4)
- 10.6 Operating Agreement, dated June 30, 1993, between Goldrus Environmental Services, Inc. and Newpark Environmental Services, Inc.(3)
- 10.7 Amended and Restated 1993 Non-Employee Directors Stock Option Plan.(6)*
- 10.8 1995 Incentive Stock Option Plan.(5)
- 10.9 Exclusive License Agreement, dated June 20, 1994, between Soloco, Inc. and Quality Mat Company.(3)
- 10.10 Operating Agreement of The Loma Company L.L.C.(6)
- 10.11 Newpark Resources, Inc. 1999 Employee Stock Purchase Plan.(7)
- 10.12 Agreement, dated May 30, 2000, between the registrant and Fletcher International Ltd., a Bermuda company.(8)
- 10.13 Agreement, dated December 28, 2000, between the registrant and Fletcher International Limited, a Cayman Islands company.(9)
- 10.14 Amended and Restated Credit Agreement, dated January 31, 2002, among the registrant, as borrower, the subsidiaries of the registrant named therein, as guarantors, and Bank One, NA, Credit Lyonnaise, Royal Bank of Canada, Hibernia National Bank, Comerica Bank and Whitney National Bank as lenders, or the

Lenders .(10)

- 10.15 Amended and Restated Guaranty, dated January 31, 2002, among the registrant's subsidiaries named therein, as guarantors, and the Lenders.(10)
- 10.16 Amended and Restated Security Agreement, dated January 31, 2002, among the registrant and the subsidiaries of the registrant named therein, as grantors, and the Lenders.(10)
- 10.17 Amended and Restated Stock Pledge Agreement, dated January 31, 2002, among the registrant, as borrower, and the Lenders.(10)
- 10.18 Newpark Resources, Inc. 2003 Long Term Incentive Plan.(11)
- 10.19 Amended and Restated Promissory Note dated as of April 29, 2003 between Newpark Shipbuilding-Brady Island, Inc. and Newpark Shipholding Texas, L.P.(12)
- 10.20 Agreement and Restating Amendment to Security Agreement dated as of April 29, 2003 between Newpark Shipholding Texas, L.P. and Newpark Shipbuilding-Brady Island, Inc.(12)
- 10.21 Amended and Restated Prepayment Letter dated as of April 29, 2003 between Newpark Shipbuilding-Brady Island, Inc. and Newpark Shipholding Texas, L.P.(12)
- 10.22 Letter agreement to amend the Intercreditor Agreement between Foothill Capital Corporation and Newpark Shipholding Texas, L.P.(12)
- 10.23 Change in Control letter agreement dated August 12, 2003 with James D. Cole.*(13)

Table of Contents

- 10.24 Change in Control letter agreement dated August 12, 2003 with Wm. Thomas Ballantine.*(13)
- 10.25 Change in Control letter agreement dated August 12, 2003 with Matthew W. Hardey.* (13)
- 10.26 Amended and Restated Credit Agreement, dated February 25, 2004, among the registrant, as borrower, the subsidiaries of the registrant named therein, as guarantors, and Bank One, N.A., Fleet Capital Corporation, Whitney National Bank and Hibernia National Bank as lenders.(13)
- 10.27 Pledge and Security Agreement, dated February 25, 2004, among the registrant and the subsidiaries of the registrant named therein, as grantors, and Bank One, N.A., as agent.(13)
- 10.28 2004 Non-Employee Directors Stock Option Plan.(14)
- 10.29 Form of Stock Option under 1995 Incentive Stock Option Plan.*(16)
- 10.30 Form of Stock Option under 2004 Non-Employee Directors Stock Option Plan.*(16)
- 10.31 Form of Award Agreement under 2003 Long-Term Incentive Plan.(16)
- 10.32 Second Amendment to Amended and Restated Credit Agreement, dated March 10, 2005, among the registrant, as borrower, the subsidiaries of the registrant named therein, as guarantors, and JPMorgan Chase Bank, as lender and as agent. (16)
- 10.33 Second Amendment to Pledge and Security Agreement, dated March 10, 2005, among the registrant and the subsidiaries of the registrant named therein, as grantors, and JPMorgan Chase Bank, N.A., as agent. (16)
- 10.34 Loan Agreement, dated July 26, 2004, between Excalibar Minerals Inc. and Excalibar Minerals of LA., and RBS Lombard, Inc.(15)
- 10.35 First Amendment to Loan Agreement, dated March 11, 2005, between Excalibar Minerals Inc. and Excalibar Minerals of LA., and RBS Lombard, Inc.(16)
- 10.36 Third Amendment to Amended and Restated Credit Agreement, dated July 15, 2005, among the registrant, as borrower, the subsidiaries of the registrant named therein, as guarantors, and JPMorgan Chase Bank, as lender and as agent.(21)
- 10.37 Form of letter agreement between the registrant and each of Wm. Thomas Ballantine and Matthew W. Hardey executed on August 10, 2005.*(19)
- 10.38 Newpark Resources, Inc. 2003 Executive Incentive Compensation Plan.*(17)
- 10.39 Charter of the Chairman of the Board.(18)
- 10.40 Fourth Amendment to Amended and Restated Credit Agreement, dated January 3, 2006, among the registrant, as borrower, the subsidiaries of the registrant named therein, as guarantors, and JPMorgan Chase Bank, as lender and as agent.(21)
- 10.41 Fifth Amendment to Amended and Restated Credit Agreement, dated February 28, 2006, among the registrant, as borrower, the subsidiaries of the registrant named therein, as guarantors, and JPMorgan Chase Bank, as

- lender and as agent.(21)
- 10.42 Certificate of Designation of Series A Cumulative Perpetual Preferred Stock of the registrant, dated April 13, 1999.(20)
- 10.43 Purchase Agreement, dated April 16, 1999, between the registrant and SCF-IV, L.P.(20)
- 10.44 Warrant to Purchase 2,400,000 shares of Common Stock, par value \$.01 per share, of the registrant.(20)
- 10.45 Registration Rights Agreement, dated April 16, 1999, between the registrant and SCF-IV,L.P.(20)
- 10.46 Compensation Committee Charter.(21)
- 10.47 Nominating and Corporate Governance Committee Charter.(21)
- 10.48 Audit Committee Charter.(22)
- 12.1 Ratio of Earnings to Fixed Charges.
- 21.1 Subsidiaries of the Registrant.(21)
- 23.1 Consent of Independent Registered Public Accounting Firm.()
- 24.1 Powers of Attorney.(23)
- 31.1 Certification of Paul L. Howes pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Eric M. Wingerter pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Table of Contents

- 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 Eric M. Wingerter pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Filed herewith.

- * Management
Compensation
Plan or
Agreement.
- (1) Previously filed in
the exhibits to the
registrant's
Registration
Statement on
Form S-1 (File
No. 33-40716).
- (2) Previously filed in
the exhibits to the
registrant's
Registration
Statement on
Form S-4 (File
No. 333-45197).
- (3) Previously filed in
the exhibits to the
registrant's Annual
Report on Form
10-K for the year
ended
December 31,
1994.
- (4) Previously filed in
the exhibits to the
registrant's
Registration
Statement on
Form S-8 (File
No. 33-83680).
- (5) Previously filed in
the exhibits to the
registrant's Annual

Report on Form
10-K for the year
ended
December 31,
1995.

(6) Previously filed in
the exhibits to the
registrant's Annual
Report on Form
10-K for the year
ended
December 31,
1998.

(7) Previously filed in
the exhibits to the
registrant's Annual
Report on Form
10-K for the year
ended
December 31,
1999.

(8) Previously filed in
the exhibits to the
registrant's Current
Report on Form
8-K dated June 1,
2000.

(9) Previously filed in
the exhibits to the
registrant's Current
Report on Form
8-K dated
December 28,
2000, which was
filed on January 4,
2001.

(10) Previously filed in
the exhibits to the
registrant's Annual
Report on Form
10-K for the year
ended
December 31,
2001.

(11)

Previously filed as an exhibit to the registrant's definitive Proxy Statement for the 2003 Annual Meeting of Stockholders.

- (12) Previously filed in the exhibits to the registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003.
- (13) Previously filed in the exhibits to the registrant's Annual Report on Form 10-K for the year ended December 31, 2003.
- (14) Previously filed in the exhibits to the registrant's Registration Statement on Form S-8 (File No. 333-228240).
- (15) Previously filed in the exhibits to the registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2004.
- (16) Previously filed in the exhibits to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.

- (17) Previously filed in the exhibits to the registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2005.
- (18) Previously filed in the exhibits to the registrant's Current Report on Form 8-K dated April 20, 2005.
- (19) Previously filed in the exhibits to the registrant's Current Report on Form 8-K dated August 10, 2005.
- (20) Previously filed in the exhibits to the registrant's Current Report on Form 8-K dated April 16, 1999.
- (21) Previously filed in the exhibits to the registrant's Annual Report on Form 10-K for the period ended December 31, 2005.
- (22) Previously filed as an exhibit to the registrant's definitive Proxy Statement for the 2005 Annual Meeting of Stockholders.
- (23) Previously included in the signature pages of

Amendment No. 1
to the registrant's
Annual Report on
Form 10-K for the
period ended
December 31,
2005.

142