NEWPARK RESOURCES INC
Form 10-K
February 26, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] annual report pursuant to section 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

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

For the Transition Period From to

Commission File Number 1-2960

Newpark Resources, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**72-1123385**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9320 Lakeside Blvd., Suite 100	
The Woodlands, Texas	**77381**
(Address of principal executive office	(Zip Code)

Registrant’s telephone number, including area code **(281) 362-6800**

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes √ No ___

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

Large accelerated filer __√ Accelerated filer ___

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

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

Yes ___ No _√

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, 2015, was $665.5 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 February 19, 2016, a total of 84,139,363 shares of Common Stock, $0.01 par value per share, were outstanding.

Documents Incorporated by Reference

Pursuant to General Instruction G(3) to this Form 10-K, the information required by Items 10, 11, 12, 13 and 14 of Part III hereof is incorporated by reference from the registrant's definitive Proxy Statement for its 2016 Annual Meeting of Stockholders.

NEWPARK RESOURCES, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2015

1

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended. We also may provide oral or written forward-looking information in other materials we release to the public. Words such as “will”, “may”, “could”, “would”, “anticipates”, “believe “estimates”, “expects”, “plans”, “intends”, and similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying them. These forward-looking statements reflect the current views of our management; however, various risks, uncertainties, contingencies and other factors, some of which are beyond our control, are difficult to predict and could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, these statements, including the success or failure of our efforts to implement our business strategy.

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

For further information regarding these and other factors, risks and uncertainties affecting us, we refer you to the risk factors set forth in Item 1A 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 1991, we changed our state of incorporation to Delaware. We are a geographically diversified oil and gas industry supplier providing products and services primarily to the oil and gas exploration ("E&P") industry. We operate our business through two reportable segments: Fluids Systems and Mats and Integrated Services. Our Fluids Systems segment provides customized drilling fluids solutions to E&P customers globally, operating through four geographic regions: North America, Europe, the Middle East and Africa ("EMEA"), Latin America, and Asia Pacific. Our Mats and Integrated Services segment provides composite mat rentals, well site construction and related site services to oil and gas customers at well, production, transportation and refinery locations in the U.S. In addition, mat rental activity is expanding into applications in other industries, including petrochemicals, utilities, and pipeline. We also sell composite mats to E&P customers outside of the U.S., and to domestic customers outside of the oil and gas industry. In March 2014, we completed the sale of our Environmental Services business, which was historically reported as a third operating segment. For a detailed discussion of this matter, see "Note 2 - Discontinued Operations" to our Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Our principal executive offices are located at 9320 Lakeside Blvd., Suite 100, The Woodlands, Texas 77381. Our telephone number is (281) 362-6800. You can find more information about us at our 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 through our website. These reports are available as soon as reasonably practicable after we electronically file these materials with, or furnish them to, the Securities and Exchange Commission ("SEC"). Our Code of Ethics, our Corporate Governance Guidelines, our Audit Committee Charter, our Compensation Committee Charter and our Nominating and Corporate Governance Committee Charter are also posted to the corporate governance section of our website. We make our website content available for informational purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference in this Form 10-K. Information filed with the SEC may be read or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C., 20549. Information on operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

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.

Industry Fundamentals

Historically, several factors have driven demand for our products and services, including the supply, demand and pricing of oil and gas commodities, which drive E&P drilling and development activity. Demand for most of our Fluids Systems' products and services is also driven, in part, by the level, type, depth and complexity of oil and gas drilling. Historically, drilling activity levels in North America have been volatile, primarily driven by the price of oil and natural gas. Starting in the fourth quarter of 2014 and continuing throughout 2015 and into the first quarter of 2016, the price of oil declined dramatically from the price levels in recent years. As a result, E&P drilling activity has significantly declined in North America and many global markets over this period. The most widely accepted measure of activity for our North American operations is the Baker Hughes Rotary Rig Count. The average North America rig count was 1,170 in 2015, compared to 2,241 in 2014, and 2,114 in 2013. The weakness in North American rig activity has continued into 2016, and as of February 19, 2016, the North American rig count was at 720. The lower activity levels are expected to remain below prior year levels for the foreseeable future.

The lower E&P drilling activity levels reduced the demand for our services and negatively impacted customer pricing in our North American operations in 2015. The lower customer demand and elevated costs associated with workforce reductions negatively impacted our profitability in 2015. Further, due to the fact that our business contains high levels of fixed costs, including significant facility and personnel expenses, North American operating margins in both operating segments are negatively impacted by the lower customer demand.

Outside of North America, drilling activity is generally more stable, as drilling activity in many countries is based upon longer term economic projections and multiple year drilling programs, which tend to reduce the impact of short term changes in commodity prices on overall drilling activity. While drilling activity in certain of our international markets, including Brazil, Australia, and India, has declined dramatically following the decline in oil prices, our international activities have continued to grow in recent years, driven by geographical expansion into new markets, as well as market share gains in existing markets.

Reportable Segments

Fluids Systems

Our Fluids Systems business offers customized solutions, including highly technical drilling projects involving complex subsurface conditions such as horizontal, directional, geologically deep or deep water drilling. These projects require increased monitoring and critical engineering support of the fluids system during the drilling process. We provide drilling fluids products and technical services to markets in North America, EMEA, Latin America, and Asia Pacific regions. We also have industrial mineral grinding operations for barite, a critical raw material in drilling fluids products, which serve to support our activity in the North American drilling fluids market. We grind barite and other industrial minerals at four facilities, including locations in Texas, Louisiana and Tennessee. We use the resulting products in our drilling fluids business, and also sell them to third party users, including other drilling fluids companies. We also sell a variety of other minerals, principally to third party industrial (non-oil and gas) markets. Our Fluids Systems business also historically included a completion services and equipment rental business; however, during the fourth quarter of 2013, we completed the sale of substantially all of the assets of this business.

Raw Materials — We believe that our sources of supply for materials and equipment used in our drilling fluids business are adequate for our needs, however, we have experienced periods of short-term scarcity of barite ore, which have resulted in significant cost increases. Our specialty milling operation is our primary supplier of barite used in our drilling fluids business. Our mills obtain raw barite ore under supply agreements from foreign sources, primarily China and India. We obtain other materials used in the drilling fluids business from various third party suppliers. We have encountered no serious shortages or delays in obtaining these raw materials.

Technology — We seek patents and licenses on new developments whenever we believe it creates a competitive advantage in the marketplace. We own the patent rights to a family of high-performance water-based fluids systems, which we market as Evolution®, DeepDrill® and FlexDrill™ systems, which are designed to enhance drilling performance and provide environmental benefits. Proprietary technology and systems are an important aspect of our business strategy. We also rely on a variety of unpatented proprietary technologies and know-how in many of our applications. We believe that our reputation in the 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.

Competition — We face competition from larger companies, including Schlumberger, Halliburton and Baker Hughes, which compete vigorously on fluids performance and/or price. In addition, these companies have broad product and service offerings in addition to their drilling fluids. We also have smaller regional competitors competing with us mainly on price and local relationships. We believe that the principal competitive factors in our businesses include a combination of technical proficiency, reputation, price, reliability, quality, breadth of services offered and experience. We believe that our competitive position is enhanced by our proprietary products and services.

Customers — Our customers are principally major integrated and independent oil and gas E&P companies operating in the markets that we serve. During 2015, approximately 54% of segment revenues were derived from the 20 largest segment customers, and 51% of segment revenues were generated domestically. Typically, we perform services either under short-term standard contracts or under “master” service agreements. As most agreements with our customers can be terminated upon short notice, our backlog is not significant. We do not derive a significant portion of our revenues from government contracts. See “Note 12 - Segment and Related Information” in Item 8. Financial Statements and Supplementary Data for additional information on financial and geographic data.

Mats and Integrated Services

We manufacture our DURA-BASE® Advanced Composite Mats for use in our rental operations as well as for third party sales. Our mats provide environmental protection and ensure all-weather access to sites with unstable soil conditions. We sell composite mats direct to customers in areas around the world where we do not maintain an infrastructure for our mat rental activities. In addition, we provide mat rentals to E&P customers in the Northeast U.S., onshore U.S. Gulf Coast, and Rocky Mountain Regions, and to non-E&P customers in the U.S., Canada and the United Kingdom. We also offer location construction and related well site services to E&P customers in the Gulf Coast Region. We recently began offering the Defender™ spill containment system to provide customers with an alternative to the use of plastic liners for spill containment and the EPZ Grounding System™ for enhanced safety and efficiency for contractors working on power line maintenance and construction projects.

Historically, our marketing efforts for the sale of composite mats remained focused in principal oil and gas industry markets outside the U.S., as well as markets outside the E&P sector in the U.S. and Europe. We believe these mats have worldwide applications outside our traditional oilfield market, primarily in infrastructure construction, maintenance and upgrades of pipelines and electric utility transmission lines, and as temporary roads for movement of oversized or unusually heavy loads. In late 2013, we announced plans to significantly expand our manufacturing facility, in order to support our efforts to expand our markets globally. This project was completed in 2015, which nearly doubled our manufacturing capacity and significantly expanded our research and development capabilities.

Raw Materials — We believe that our sources of supply for materials and equipment used in our business are adequate for our needs. We are not dependent upon any one supplier and 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. Resin is the largest raw material component in the manufacturing of our composite mat products.

Technology — We have obtained patents related to the design and manufacturing of our DURA-BASE mats and several of the components, as well as other products and systems related to these mats (including the Defender spill containment system and the EPZ Grounding System). Using proprietary technology and systems is an important aspect of our business strategy. We believe that these products provide us with a distinct advantage over our competition. We believe that our reputation in the industry, the range of services we offer, ongoing technical development and know-how, responsiveness to customers and understanding of regulatory requirements also have competitive significance in the markets we serve.

Competition — Our market is fragmented and competitive, with many competitors providing various forms of site preparation products and services. The mat sales component of our business is not as fragmented as the rental and services segment with only a few competitors providing various alternatives to our DURA-BASE mat products, such as Signature Systems Group. This is due to many factors, including large capital start-up costs and proprietary technology associated with this product. We believe that the principal competitive factors in our businesses include product capabilities, price, reputation, and reliability. We also believe that our competitive position is enhanced by our proprietary products, services and experience.

Customers — Our customers are principally integrated and independent oil and gas E&P companies operating in the markets that we serve. Approximately 72% of our segment revenues in 2015 were derived from the 20 largest segment customers, of which, the largest customer represented 16% of our segment revenues. As a result of our recent efforts to expand beyond our traditional oilfield customer base, revenues from non-exploration customers increased in 2015 and represented approximately 44% of segment revenues in 2015, as compared to approximately 25% in 2014. Typically, we perform services either under short-term contracts or rental 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. See “Note 12 - Segment and Related Information” in Item 8. Financial Statements and Supplementary Data for additional information on financial and geographic data.

Sale of Environmental Services Segment

In March 2014, we completed the sale of our Environmental Services business, which was historically reported as a third operating segment. For further discussion of this matter, see "Note 2 - Discontinued Operations" in our Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

The Environmental Services business processed and disposed of waste generated by our oil and gas customers that was treated as exempt under the Resource Conservation and Recovery Act ("RCRA"). The Environmental Services business also processed E&P waste contaminated with naturally occurring radioactive material. In addition, the business received and disposed of non-hazardous industrial waste, principally from generators of such waste in the U.S. Gulf Coast market, which produced waste that was not regulated under RCRA.

Employees

At January 31, 2016, we employed approximately 1,980 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 legal requirements concerning environmental matters. Our business is affected 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. Our activities are impacted by various federal and state regulatory agencies, and provincial pollution control, health and safety programs that are administered and enforced by regulatory agencies.

Additionally, our business exposes us to environmental risks. 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 waste, ongoing employee training, and monitoring and maintaining insurance coverage.

We also employ a corporate-wide web-based health, safety and environmental management system ("HSEMS"), which is ISO 14001:2004 compliant. The HSEMS is designed to capture information related to the planning, decision-making, and general operations of environmental regulatory activities within our operations. We also use the

HSEMS to capture the information generated by regularly scheduled independent audits that are done to validate the findings of our internal monitoring and auditing procedures.

ITEM 1A. *Risk Factors*

The following summarizes the most significant risk factors to our business. Our success will depend, in part, on our ability to anticipate and effectively manage these and other risks. Any of these risk factors, either individually or in combination, could have significant adverse impacts to our results of operations and financial condition, or prevent us from meeting our profitability or growth objectives.

Risks Related to the Worldwide Oil and Natural Gas Industry

We derive a significant portion of our revenues from customers in the worldwide oil and natural gas industry; therefore, our risk factors include those factors that impact the demand for oil and natural gas. Spending by our customers for exploration, development and production of oil and natural gas is based on a number of factors, including expectations of future hydrocarbon demand, energy prices, the risks associated with developing reserves, our customer's ability to finance exploration and development of reserves, and the future value of the reserves. Reductions in customer spending levels have adversely affected the demand for our services, and consequently, our revenue and operating results and a continuation of these market conditions will continue to negatively affect our revenue and operating results. The key risk factors that we believe influence the worldwide oil and natural gas markets are discussed below.

Demand for oil and natural gas is subject to factors beyond our control

Demand for oil and natural gas, as well as the demand for our services, is highly correlated with global economic growth and in particular by the economic growth of countries such as the U.S., India, China, and developing countries in Asia and the Middle East. Weakness in global economic activity has reduced and incremental weakness could continue to reduce demand for oil and natural gas and result in lower oil and natural gas prices. In addition, demand for oil and natural gas could be impacted by environmental regulation, including cap and trade legislation, regulation of hydraulic fracturing, and carbon taxes. Weakness or deterioration of the global economy or credit markets could reduce our customers' spending levels and reduce our revenue and operating results.

Supply of oil and natural gas is subject to factors beyond our control

The ability to produce oil and natural gas can be affected by the number and productivity of new wells drilled and completed, as well as the rate of production and resulting depletion of existing wells. Productive capacity in excess of demand is also an important factor influencing energy prices and spending by oil and natural gas exploration companies. Oil and natural gas storage inventory levels are indicators of the relative balance between supply and demand. Supply can also be impacted by the degree to which individual Organization of Petroleum Exporting Countries ("OPEC") nations and other large oil and natural gas producing countries are willing and able to control production and exports of hydrocarbons, to decrease or increase supply and to support their targeted oil price or meet market share objectives. Any of these factors could affect the supply of oil and natural gas and could have a material effect on our results of operations.

Volatility of oil and natural gas prices can adversely affect demand for our products and services

Volatility in oil and natural gas prices can also impact our customers' activity levels and spending for our products and services. The level of energy prices is important to the cash flow for our customers and their ability to fund exploration and development activities. Since late 2014, oil prices have declined significantly due in large part to increasing supplies, weakening demand growth and OPEC's position to not cut production. Expectations about future commodity prices and price volatility are important for determining future spending levels.

Lower oil and natural gas prices generally lead to decreased spending by our customers. Our customers also take into account the volatility of energy prices and other risk factors by requiring higher returns for individual projects if there is higher perceived risk.

Our customers' activity levels, spending for our products and services and ability to pay amounts owed us could be impacted by the ability of our customers to access equity or credit markets

Our customers' access to capital is dependent on their ability to access the funds necessary to develop oil and gas prospects. Limited access to external sources of funding has and may continue to cause customers to reduce their capital spending plans. In addition, a reduction of cash flow to our customers resulting from declines in commodity prices or the lack of available debt or equity financing may impact the ability of our customers to pay amounts owed to us.

Risks Related to our Customer Concentration and reliance on the U.S. Exploration and Production Market

In 2015, approximately 49% of our consolidated revenues were derived from our 20 largest customers, although no single customer accounted for more than 10% of our consolidated revenues. In addition, approximately 57% of our consolidated revenues were derived from our U.S. operations.

Beginning in the fourth quarter of 2014 and continuing through 2015 into early 2016, the price for oil has declined dramatically from the price levels in recent years and there are no assurances that the price for oil will not continue to decline. Following this decline, North American drilling activity has decreased significantly, which has reduced the demand for our services and negatively impacted customer pricing in our North American operations. Due to these changes, our quarterly and annual operating results have been negatively impacted and may continue to fluctuate in future periods. Because our business has high fixed costs, including significant facility and personnel expenses, downtime or low productivity due to reduced demand can have a significant adverse impact on our profitability.

Risks Related to the Cost and Continued Availability of Borrowed Funds, including Risks of Noncompliance with Debt Covenants

We employ borrowed funds as an integral part of our long-term capital structure and our future success is dependent upon continued access to borrowed funds to support our operations. The availability of borrowed funds on reasonable terms is dependent on the condition of credit markets and financial institutions from which these funds are obtained. Adverse events in the financial markets may significantly reduce the availability of funds, which may have an adverse effect on our cost of borrowings and our ability to fund our business strategy.

Our ability to meet our debt service requirements and the continued availability of funds under our existing or future credit agreements is dependent upon our ability to continue generating operating income and remain in compliance with the covenants in our credit agreements. In December 2015, we entered into a First Amendment to our Third Amended and Restated Credit Agreement (“Amendment”), amending provisions of our existing Third Amended and Restated Credit Agreement (“Credit Agreement”). The Amendment was principally entered into as a result of our anticipation of non-compliance with the consolidated leverage ratio financial covenant under our Credit Agreement. While no amounts are currently outstanding under our Credit Agreement, a breach of any of these covenants would result in a default under the Credit Agreement unless we are able to obtain, on a timely basis, the necessary waiver or amendment to the Credit Agreement. Any waiver or amendment to our Credit Agreement may require us to revise the terms of our Credit Agreement which could increase the cost of our borrowings, require the payment of additional fees, and adversely impact the results of our operations. Upon the occurrence of any event of default under the Credit Agreement that is not waived, the lenders could elect to exercise any of their available remedies, which include the right to not lend any additional amounts or, in the event we have outstanding indebtedness under the Credit Agreement, to declare any outstanding indebtedness, together with any accrued interest and other fees, to be immediately due and payable. If we are unable to repay the outstanding indebtedness, if any, under the Credit

Agreement when due, the lenders would be permitted to proceed against their collateral. In the event any outstanding indebtedness in excess of $25 million is accelerated, this could also cause a default under our unsecured convertible senior notes. The acceleration of any of our indebtedness and the election to exercise any such remedies could have a material adverse effect on our business and financial condition.

Risks Related to International Operations

We have significant operations outside of the United States, including certain areas of Canada, EMEA, Latin America, and Asia Pacific. In 2015, these international operations generated approximately 43% of our consolidated revenues. 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
- uncertainties in or unexpected changes in regulatory environments or tax laws
- 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
- risks associated with failing to comply with the Foreign Corrupt Practices Act, export laws, and other similar U.S. laws applicable to our operations in international markets
- exchange controls or other limitations on international currency movements
- sanctions imposed by the U.S. government that prevent us from engaging in business in certain countries
- inability to obtain or preserve certain intellectual property rights in the foreign countries in which we operate
- our inexperience in new international markets
- fluctuations in foreign currency exchange rates
- political and economic instability
- acts of terrorism

In addition, several North African markets in which we operate, including Tunisia, Egypt, Libya, and Algeria have experienced social and political unrest in past years, which negatively impacted our operating results, including the temporary suspension of our operations. More recently in Brazil, a widely-publicized corruption investigation has led to disruptions in Petrobras' operations.

Risks Related to Operating Hazards Present in the Oil and Natural Gas Industry

Our operations are subject to hazards present in the oil and natural gas industry, such as fire, explosion, blowouts, oil spills and leaks or spills of hazardous materials (both onshore and offshore). These incidents as well as accidents or problems in normal operations can cause personal injury or death and damage to property or the environment. The customer's operations can also be interrupted and it is possible that such incidents can interrupt our ongoing operations and the ability to provide our services. From time to time, customers seek recovery for damage to their equipment or property that occurred during the course of our service obligations. Damage to the customer's property and any related spills of hazardous materials could be extensive if a major problem occurred. We purchase insurance which may provide coverage for incidents such as those described above, however, the policies may not provide coverage or a sufficient amount of coverage for all types of damage claims that could be asserted against us. See the section entitled "Risks Related to the Inherent Limitations of Insurance Coverage" for additional information.

Risks Related to Business Acquisitions and Capital Investments

Our ability to successfully execute our business strategy will depend, among other things, on our ability to make capital investments and acquisitions which provide us with financial benefits. In 2016, our capital expenditures are expected to be approximately $30 million to $45 million, including additional investments for the facility upgrade and expansion of our Fourchon, Louisiana facility serving the Gulf of Mexico deepwater market, as well as infrastructure investments required to support the expansion of our international operations. These investments are subject to a number of risks and uncertainties, including:

- incorrect assumptions regarding business activity levels or results from our capital investments, acquired operations or assets
- failure to complete a planned acquisition transaction or to successfully integrate the operations or management of any acquired businesses or assets in a timely manner
- diversion of management's attention from existing operations or other priorities
- unanticipated disruptions to our business associated with the implementation of our enterprise-wide operational and financial system
- delays in completion and cost overruns associated with large construction projects, including the project mentioned above

Any of the factors above could have an adverse effect on our business, financial condition or results of operations.

Risks Related to the Availability of Raw Materials and Skilled Personnel

Our ability to provide products and services to our customers is dependent upon our ability to obtain the raw materials and qualified personnel necessary to operate our business.

Barite is a naturally occurring mineral that constitutes a significant portion of our drilling fluids systems. We currently secure the majority of our barite ore from foreign sources, primarily China and India. The availability and cost of barite ore is dependent on factors beyond our control including transportation, political priorities and government imposed export fees in the exporting countries, as well as the impact of weather and natural disasters. The future supply of barite ore from existing sources could be inadequate to meet the market demand, particularly during periods of increasing world-wide demand, which could ultimately result in a reduction in industry activity, or our inability to meet customer's needs.

Our mats business is highly dependent on the availability of high-density polyethylene ("HDPE"), which is the primary raw material used in the manufacture of the DURA-BASE mat. The cost of HDPE can vary significantly based on the energy costs of the producers of HDPE, demand for this material, and the capacity/operations of the plants used to make HDPE. Should our cost of HDPE increase, we may not be able to increase our customer pricing to cover our costs, which may result in a reduction in future profitability.

All of our businesses are also highly dependent on our ability to attract and retain highly-skilled engineers, technical sales and service personnel. The market for these employees is very competitive, and if we cannot attract and retain quality personnel, our ability to compete effectively and to grow our business will be severely limited. Also, a significant increase in the wages paid by competing employers could result in a reduction in our skilled labor force or an increase in our operating costs.

Risk Related to our Market Competition

We face competition in the Fluids Systems business from larger companies, which compete vigorously on fluids performance and/or price. In addition, these companies have broad product and service offerings in addition to their drilling fluids. At times, these larger companies attempt to compete by offering discounts to customers to use multiple products and services from our competitor, some of which we do not offer. We also have smaller regional competitors competing with us mainly on price and local relationships. Our competition in the Mats and Integrated Services business is fragmented, with many competitors providing various forms of mat products and services. More recently several competitors have begun marketing composite products to compete with our DURA-BASE mat system. While we believe the design and manufacture of our mat products provide a differentiated value to our customers, many of our competitors seek to compete on pricing. Further, the current weakness in the North American drilling activity has resulted in significant reductions in pricing from many of our competitors, both in the Fluids Systems and Mats and Integrated Services segment.

Risks Related to Legal and Regulatory Matters, Including Environmental Regulations

We are responsible for complying with numerous federal, state and local laws, regulations and policies that govern environmental protection, zoning and other matters applicable to our current and past business activities, including the activities of our former subsidiaries. Failure to remain compliant with these laws and regulations may result in fines, penalties, costs of cleanup of contaminated sites and site closure obligations, or other expenditures. Further, any changes in the current legal and regulatory environment could impact industry activity and the demands for our products and services, the scope of products and services that we provide, or our cost structure required to provide our products and services, or the costs incurred by our customers.

The markets for our products and services are dependent on the continued exploration for and production of fossil fuels (predominantly oil and natural gas). Climate change is receiving increased attention worldwide. Many scientists, legislators and others attribute climate change to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. The Environmental Protection Agency (the "EPA") has adopted regulations that potentially limit greenhouse gas emissions and impose reporting obligations on large greenhouse gas emission sources. In addition, the EPA has adopted rules that could require the reduction of certain air emissions during exploration and production of oil and gas. To the extent that laws and regulations enacted as part of climate change legislation increase the costs of drilling for or producing such fossil fuels, or reduce the demand for fossil fuels, such legislation could have a material adverse impact on our operations and profitability.

Hydraulic fracturing is an increasingly common practice used by E&P operators to stimulate production of hydrocarbons, particularly from shale oil and gas formations in the United States. The process of hydraulic fracturing, which involves the injection of sand (or other forms of proppants) laden fluids into oil and gas bearing zones, has come under increasing scrutiny from a variety of regulatory agencies, including the EPA and various state authorities. Several states have adopted regulations requiring operators to identify the chemicals used in fracturing operations, others have adopted moratoriums on the use of fracturing, and the State of New York has banned the practice altogether. The EPA has commenced a study of the potential impact of hydraulic fracturing on drinking water including the disposal of waste fluid by underground injection. Further, the EPA has announced plans to develop effluent limitations associated with wastewater generated by hydraulic fracturing. Although we do not provide hydraulic fracturing services and our drilling fluids products are not used in such services, regulations which have the effect of limiting the use or availability of hydraulic fracturing could have a significant negative impact on the drilling activity levels of our customers, and, therefore, the demand for our products and services.

Risks Related to the Inherent Limitations of Insurance Coverage

While we maintain liability insurance, this insurance is subject to coverage limitations. Specific risks and limitations of our insurance coverage include the following:

self-insured retention limits on each claim, which are our responsibility

exclusions for certain types of liabilities and limitations on coverage for damages resulting from pollution

coverage limits of the policies, and the risk that claims will exceed policy limits

the financial strength and ability of our insurance carriers to meet their obligations under the policies

In addition, our ability to continue to obtain insur