



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2004

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)

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common stock, \$0.01 par value: 83,957,581 shares at November 1, 2004.

NEWPARK RESOURCES, INC.  
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FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED  
September 30, 2004

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Newpark Resources Inc.

**Consolidated Balance Sheets**  
(Unaudited)

(In thousands, except share data)	September 30, 2004	December 31, 2003
<b>ASSETS</b>		
		Note 1
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,331	\$ 4,692
Restricted cash	—	8,029
Trade accounts receivable, net	107,923	99,948
Notes and other receivables	5,250	5,428
Inventories	71,529	74,846
Deferred tax asset	7,597	8,698
Prepaid expenses and other current assets	11,745	8,510
<b>Total current assets</b>	<b>208,375</b>	<b>210,151</b>
Property, plant and equipment, at cost, net of accumulated depreciation	205,682	206,238
Goodwill	116,067	115,869
Deferred tax asset	7,617	8,778
Other intangible assets, net	15,767	14,947
Other assets	21,261	19,517
	<u>\$ 574,769</u>	<u>\$ 575,500</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Foreign bank lines of credit	\$ 6,637	\$ 10,610
Current maturities of long-term debt	5,146	3,259
Accounts payable	36,016	40,479
Accrued liabilities	26,858	21,894
<b>Total current liabilities</b>	<b>74,657</b>	<b>76,242</b>
Long-term debt, less current portion	179,246	183,600
Other non-current liabilities	2,975	1,697
<b>Stockholders' equity:</b>		
Preferred Stock, \$.01 par value, 1,000,000 shares authorized, 80,000 and 120,000 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	20,000	30,000
Common Stock, \$.01 par value, 100,000,000 shares authorized, 83,938,247 and 81,073,222 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	839	811
Paid-in capital	401,737	390,788
Unearned restricted stock compensation	(555)	(803)
Accumulated other comprehensive income	4,245	5,033
Retained deficit	(108,375)	(111,868)
<b>Total stockholders' equity</b>	<b>317,891</b>	<b>313,961</b>
	<u>\$ 574,769</u>	<u>\$ 575,500</u>

See Accompanying Notes to Unaudited Consolidated Financial Statements

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Newpark Resources, Inc.

**Consolidated Statements of Operations**For the Three and Nine Month Periods Ended September 30,  
(Unaudited)

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues	\$ 110,790	\$ 95,593	\$ 319,733	\$ 278,553
Cost of revenues	<u>103,401</u>	<u>89,454</u>	<u>296,110</u>	<u>257,400</u>
Gross profit	7,389	6,139	23,623	21,153
General and administrative expenses	<u>2,122</u>	<u>979</u>	<u>6,993</u>	<u>3,245</u>
Operating income	5,267	5,160	16,630	17,908
Foreign currency (gain) loss	76	16	217	(758)
Interest income	(118)	(138)	(1,255)	(570)
Interest expense	<u>3,760</u>	<u>3,719</u>	<u>10,885</u>	<u>11,413</u>
Income before income taxes	1,549	1,563	6,783	7,823
Provision for income taxes	<u>589</u>	<u>779</u>	<u>2,578</u>	<u>3,133</u>
Net income	960	784	4,205	4,690
Less:				
Preferred stock dividends and accretion	<u>225</u>	<u>338</u>	<u>713</u>	<u>1,246</u>
Net income applicable to common and common equivalent shares	\$ <u>735</u>	\$ <u>446</u>	\$ <u>3,492</u>	\$ <u>3,444</u>
Basic and diluted income per common and common equivalent shares	\$ <u>0.01</u>	\$ <u>0.01</u>	\$ <u>0.04</u>	\$ <u>0.04</u>

See Accompanying Notes to Unaudited Consolidated Financial Statements

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Newpark Resources, Inc.

**Consolidated Statements of Comprehensive**  
For the Nine Month Periods Ended September 30,  
(Unaudited)

<b>(In thousands)</b>	<b>2004</b>	<b>2003</b>
Net income	\$4,205	\$4,690
Other comprehensive income (loss):		
Foreign currency translation adjustments	(788)	5,104
Comprehensive income	<u>\$3,417</u>	<u>\$9,794</u>

See Accompanying Notes to Unaudited Consolidated Financial Statements

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Newpark Resources, Inc.

**Consolidated Statements of Cash Flows**For the Nine Month Periods Ended September 30,  
(Unaudited)

(In thousands )	2004	2003
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,205	\$ 4,690
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	15,340	16,050
Provision for deferred income taxes	2,008	2,826
Gain (loss) on sale of assets	(15)	94
Change in assets and liabilities:		
Decrease in restricted cash	8,029	—
Decrease (increase) in accounts receivable	(11,881)	3,662
Increase in inventories	(110)	(20,080)
Decrease (increase) in other assets	(5,385)	912
Increase (decrease) in accounts payable	(4,156)	2,733
Increase in accrued liabilities and other	1,040	9,335
<b>Net cash provided by operating activities</b>	<u>9,075</u>	<u>20,222</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(14,224)	(18,374)
Proceeds from sale of property, plant and equipment	336	125
Payments received on notes receivable	10,403	1,171
<b>Net cash used in investing activities</b>	<u>(3,485)</u>	<u>(17,078)</u>
<b>Cash flows from financing activities:</b>		
Net borrowings (payments) on lines of credit	(19,345)	504
Net borrowings (payments) on notes payable and long-term	13,213	(2,852)
Proceeds from exercise of stock options and ESPP	631	176
Preferred stock dividends paid in cash	(450)	—
<b>Net cash used in financing activities</b>	<u>(5,951)</u>	<u>(2,172)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(361)	972
<b>Cash and cash equivalents at beginning of period</b>	<u>4,692</u>	<u>2,725</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 4,331</u>	<u>\$ 3,697</u>

See Accompanying Notes to Unaudited Consolidated Financial Statements

NEWPARK RESOURCES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 — Interim Financial Statements**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The condensed consolidated balance sheet at December 31, 2003 was derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, please refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2003.

**Note 2 — Significant Accounting Policies**

Our significant accounting policies, including our revenue recognition policies, have been previously disclosed in our Form 10-K for the period ending December 31, 2003. Following is a clarification of our revenue recognition policies.

For the fluids sales and engineering segment, revenues, less allowances for product returns, are recognized for sales of drilling fluid materials upon shipment of the materials. 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 E&P waste disposal segment, revenues are recognized when Newpark takes title to the waste, which is upon its receipt of the waste at our facility. All costs related to transporting and disposing of the waste received are accrued when that revenue is recognized.

For the mat and integrated services segment, revenues from 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 provided for in 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 the use of mat systems. Revenues from these contracts are recorded using



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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 services provided in the income statement.

### **Note 3 — Preferred Stock**

In January 2004, the holder of Series B Preferred Stock exercised its right to convert a total of 40,000 shares of the Series B Preferred Stock into common stock. The converted shares of Series B Preferred Stock had a total stated value of \$10.0 million. In this conversion, Newpark issued a total of 2.6 million shares of its common stock, valued at the conversion price of \$3.804, and cancelled the 40,000 shares of Series B Preferred Stock.

### **Note 4 — Earnings Per Share**

The following table presents the reconciliation of the numerator and denominator for calculating income per share in accordance with the disclosure requirements of Financial Accounting Standards (“FAS”) 128 (in thousands, except per share amounts).

	Three Months Ended	
	2004	2003
Income applicable to common and common equivalent shares	\$ 735	\$ 446
Weighted average number of common shares outstanding	83,921	80,892
Add:		
Net effect of dilutive stock options and warrants	332	154
Adjusted weighted average number of common shares outstanding	84,253	81,046
Basic and diluted income applicable to common and common equivalent shares	\$ .01	\$ .01

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	Nine Months Ended September 30,	
	2004	2003
Income applicable to common and common equivalent shares	\$ 3,492	\$ 3,444
Weighted average number of common shares outstanding	83,549	79,379
Add:		
Net effect of dilutive stock options and warrants	269	128
Adjusted weighted average number of common shares outstanding	83,818	79,507
Basic and diluted income applicable to common and common equivalent shares	\$ .04	\$ .04

Basic net income per share was calculated by dividing net income by the weighted-average number of common shares outstanding during the period. For the three months ended September 30, 2004 and 2003, Newport had dilutive stock options and warrants of approximately 3.0 million shares and 1.3 million shares, respectively, which were assumed to be exercised using the treasury stock method. For the nine months ended September 30, 2004 and 2003, Newport had dilutive stock options and warrants of approximately 1.9 million shares and 687,000 shares, respectively, which were assumed exercised using the treasury stock method. The resulting net effects of stock options and warrants were used in calculating diluted income per share for these periods.

Options and warrants to purchase a total of approximately 7.2 million shares and 10.0 million shares of common stock were outstanding during the three months ended September 30, 2004 and 2003, respectively, 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 approximately 8.2 million shares and 10.4 million shares of common stock were outstanding during the nine months ended September 30, 2004 and 2003, respectively, but were not included in the computation of diluted income per share because they were anti-dilutive.

The net effect of the assumed conversion of preferred stock through the date of repurchase or conversion has been excluded from the computation of diluted income per share for all periods presented because the effect would be anti-dilutive.

**Note 5 — Stock-Based Compensation**

At September 30, 2004, Newport maintained six stock-based compensation plans, including four stock option plans, a deferred compensation plan and a long-term incentive plan. Newport applies Accounting Principles Board Opinion 25 (“APB 25”) and related Interpretations in accounting for its stock-based compensation plans. In accordance with this guidance, no compensation cost has been recognized for Newport’s stock option plans as the exercise price of all stock options granted thereunder is equal to the fair value at the date of grant. Compensation expense is recorded for Newport’s deferred compensation plan and long-term incentive plan. Had compensation costs for all of Newport’s stock-

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based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FAS 123, Newpark's net income and net income per share would have been reduced to the pro forma amounts indicated below:

(In thousands, except per share data)	Three Months Ended September 30,	
	2004	2003
Income applicable to common and common equivalent shares:		
As reported	\$ 735	\$ 446
Add recorded stock compensation expense, net of related taxes	51	63
Deduct stock based employee compensation expense determined under fair value based method for all awards, net of related taxes	(485)	(579)
Pro forma	<u>\$ 301</u>	<u>\$ (70)</u>
Basic and diluted net income per share:		
As reported	<u>\$ .01</u>	<u>\$ .01</u>
Proforma	<u>\$ .00</u>	<u>\$ (.00)</u>

(In thousands, except per share data)	Nine Months Ended September 30,	
	2004	2003
Income applicable to common and common equivalent shares:		
As reported	\$ 3,492	\$ 3,444
Add recorded stock compensation expense, net of related taxes	154	149
Deduct stock based employee compensation expense determined under fair value based method for all awards, net of related taxes	(1,310)	(1,687)
Pro forma	<u>\$ 2,336</u>	<u>\$ 1,906</u>
Basic and diluted net income per share:		
As reported	<u>\$ .04</u>	<u>\$ .04</u>
Proforma	<u>\$ .03</u>	<u>\$ .02</u>

On March 31, 2004, the Financial Accounting Standards Board (FASB) issued a proposed Statement, "Share-Based Payment," that addresses the accounting for share-based payment transactions under which a company receives employee services in exchange for equity instruments of the company, such as stock options. The proposed Statement would eliminate the ability to account for share-based compensation transactions using APB 25 and generally would require instead that such transactions be accounted for using a fair value-based method. On October 13, 2004, the FASB concluded FAS 123R, "Share-Based Payment," which will require companies to measure compensation cost for all share-based payments at fair value, to be effective for interim or annual periods beginning after June 15, 2005. The proposed Statement, if adopted, would require Newpark to begin accounting for stock options under this method beginning in the

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quarter ended September 30, 2005. It is currently not known whether the implementation of FAS 123R would result in financial results materially different from those presented above or if Newpark will early adopt this Statement, as encouraged by the FASB.

**Note 6 — Accounts Receivable**

Included in accounts receivable at September 30, 2004 and December 31, 2003 are:

(in thousands)	September 30, 2004	December 31, 2003
Trade receivables	\$ 94,954	\$ 89,801
Unbilled revenues	15,499	13,067
Gross trade receivables	110,453	102,868
Allowance for doubtful accounts	(2,530)	(2,920)
Net trade receivables	<u>\$107,923</u>	<u>\$ 99,948</u>

**Note 7 — Inventory**

Newpark's inventory consisted of the following items at September 30, 2004 and December 31, 2003:

(in thousands)	September 30, 2004	December 31, 2003
Finished goods:		
Composite mats	\$13,136	\$21,307
Raw materials and components:		
Drilling fluids raw material and components	50,749	47,856
Logs	6,283	3,982
Supplies	310	308
Other	1,051	1,393
Total raw materials and components	58,393	53,539
Total inventory	<u>\$71,529</u>	<u>\$74,846</u>

**Note 8 — Long-Term Debt**

As of September 30, 2004, Newpark had outstanding \$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 June 15 and December 15 (see Note 11).

On February 25, 2004, Newpark's bank credit facility was amended, restated and converted into an asset-based lending facility (the "Credit Facility"). The Credit Facility matures on February 25, 2007. Under the Credit Facility, Newpark can borrow up to \$85 million in the form of \$15 million in term debt and \$70 million in revolving debt. At September 30, 2004, \$12.6 million was outstanding under the term portion of the Credit Facility. Availability under the revolving portion of the Credit Facility is based on a

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percentage of Newpark's eligible consolidated accounts receivable and inventory as defined in the Credit Facility. At September 30, 2004, total availability under the revolving portion of the Credit Facility was \$57.9 million. At September 30, 2004, \$10.8 million in letters of credit were issued and outstanding and \$18.7 million was outstanding under the revolving portion of the Credit Facility, leaving \$28.4 million of availability under the revolving portion of the Credit Facility at that date. The Credit Facility bears interest at either a specified prime rate (4.75% at September 30, 2004), or the LIBOR rate (1.98% at September 30, 2004), in each case plus a spread determined quarterly based upon a fixed charge coverage ratio. The weighted average interest rates on the outstanding balance under the Credit Facility for the three months and nine months ended September 30, 2004 were 4.4% and 4.7%, respectively, as compared to 5.7% and 5.6%, respectively, for the comparable periods in 2003.

The Credit Facility is secured by substantially all domestic assets of Newpark and its domestic subsidiaries. The Credit Facility contains a fixed charge coverage ratio covenant and a tangible net worth covenant. Newpark was in compliance with all covenants as of September 30, 2004.

During the third quarter of 2004, Newpark closed a \$15 million project financing of the recently completed barite mill, and \$6.7 million in support of the new mat rental operation in Mexico. Proceeds from these transactions were applied to reduce advances under the Credit Facility.

### **Note 9 — New Accounting Standards**

In January 2003, the FASB issued Financial Interpretation Number 46 ("FIN 46") "Consolidation of Variable Interest Entities," which clarifies the application of Accounting Research Bulletin 51, "Consolidated Financial Statements", to certain entities (called variable interest entities) in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The disclosure requirements of FIN 46 were effective for all financial statements issued after January 31, 2003. The consolidation requirements apply to all variable interest entities created after January 31, 2003. In addition, public companies were required to apply the consolidation requirements to variable interest entities that existed prior to February 1, 2003 and remained in existence as of the beginning of annual or interim periods beginning after March 15, 2004.

Management has completed its assessment of the impact of FIN 46 on the reporting for Newpark's three variable interest entities. These variable interest entities consist of a 90% interest in a Mexican joint venture for the sale and lease of DuraBase™ composite mats in the Mexican market (DuraBase de Mexico), a 49% interest in a joint venture with the leading producer of wooden mats ("MOCTX") and a 49% interest in the Loma Company, LLC ("LOMA"), the producer of DuraBase™ composite mats. Based on management's assessments, it was determined that Newpark is the primary beneficiary of DuraBase de Mexico, and has consolidated the financial statements of DuraBase de Mexico with Newpark. Based on management's assessments, it was determined that Newpark is not the primary beneficiary of MOCTX and thus Newpark continues to account for this investment under the equity method. Newpark issued a guaranty for certain debt

obligations of MOCTX. The amount of this guaranty as of September 30, 2004 was \$4.6 million.

Based on management's assessments, it was determined that Newpark is the primary beneficiary of LOMA. However, Newpark continues to account for its 49% investment in LOMA under the equity method because LOMA's financial position and results of operations are not material to Newpark's consolidated financial statements. In addition, due to the ongoing dispute and pricing litigation discussed in Note 12, Newpark currently does not have access to and has been unable to obtain current and reliable financial information as of and for the period ended September 30, 2004. Based on the latest available financial information on LOMA, which is as of December 31, 2003, LOMA would have represented less than 2% of Newpark's consolidated total assets as of December 31, 2003. Substantially all of the operating activity of LOMA is with Newpark or one of its wholly-owned subsidiaries and this activity would be eliminated in consolidation. Newpark's investment in and advances to LOMA as of September 30, 2004 was \$11.4 million, including \$10.2 million in receivables recorded in connection with the recent judgment in our pricing dispute (see Note 12).

Newpark has also issued a guaranty of certain debt obligations of LOMA. This guaranty is backed by a letter of credit. The amount of this guaranty as of September 30, 2004 was \$7.1 million. The LOMA plant suspended production in May 2003 and has not resumed operations. On August 11, 2004, LOMA initiated a Chapter 11 bankruptcy reorganization proceeding in the Bankruptcy Court for the Western District of Louisiana. Because of the recent bankruptcy filing by LOMA, Newpark's guarantee may be called upon to fulfill LOMA's debt obligation. Since Newpark's guarantee is secured by a letter of credit, there would not be any impact on the availability under Newpark's Credit Facility should performance under the guarantee be required.

#### **Note 10 — Segment Data**

Effective January 1, 2004, Newpark implemented a segment change in the financial reporting of its Canadian operations. As a result of this change, the operating results for the environmental services business unit in Canada are now included as a component of the E&P waste disposal segment, rather than within the fluids sales and engineering segment. In addition, a portion of the operating costs of the Canadian business unit are now reported as a component of G&A expenses. All segment information for the prior year has been restated to reflect these reporting changes. Summarized financial information concerning Newpark's reportable segments is shown in the following table (dollars in millions):

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	Three Months Ended September 30,		Increase/(Decrease)	
	2004	2003	\$	%
Revenues by segment:				
Fluids sales & engineering	\$ 71,448	\$57,089	\$14,359	25%
E&P waste disposal	15,363	18,634	(3,271)	(18)
Mat & integrated services	23,979	19,870	4,109	21
Total revenues	<u>\$110,790</u>	<u>\$95,593</u>	<u>\$15,197</u>	16%
Operating income by segment:				
Fluids sales & engineering	\$ 4,978	\$ 2,791	\$ 2,187	78%
E&P waste disposal	1,243	3,908	(2,665)	(68)
Mat & integrated services	1,168	(560)	1,728	NM
Total by segment	7,389	6,139	1,250	20
General and administrative expenses	2,122	979	1,143	117
Total operating income	<u>\$ 5,267</u>	<u>\$ 5,160</u>	<u>\$ 107</u>	2%

	Nine Months Ended September 30,		Increase/(Decrease)	
	2004	2003	\$	%
Revenues by segment:				
Fluids sales & engineering	\$196,042	\$158,590	\$37,452	24%
E&P waste disposal	47,619	51,028	(3,409)	(7)
Mat & integrated services	76,072	68,935	7,137	10
Total revenues	<u>\$319,733</u>	<u>\$278,553</u>	<u>\$41,180</u>	15%
Operating income by segment:				
Fluids sales & engineering	\$ 13,778	\$ 8,667	\$ 5,111	59%
E&P waste disposal	5,612	9,690	(4,078)	(42)
Mat & integrated services	4,232	2,796	1,436	51
Total by segment	23,622	21,153	2,469	12
General and administrative expenses	6,993	3,245	3,748	116
Total operating income	<u>\$ 16,629</u>	<u>\$ 17,908</u>	<u>\$ (1,279)</u>	(7)%

NM — Not Meaningful

The figures above are shown net of intersegment transfers.

**Note 11 — Condensed Consolidating Financial Information**

The supplemental condensed consolidating financial information should be read in conjunction with the notes to these consolidated financial statements and have been prepared pursuant to the rules and regulations for condensed financial information and does not include all disclosures included in annual financial statements, although Newpark believes that the disclosures made are adequate to make the information presented not

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misleading. Certain reclassifications were made to conform all of the financial information to the financial presentation on a consolidated basis. The principal eliminating entries eliminate investments in subsidiaries, intercompany balances and intercompany revenues and expenses. The allocation of the consolidated income tax provision was made using the with and without allocation method.

**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF SEPTEMBER 30, 2004**  
**(in thousands)**

	<u>Parent Company Only</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Current assets:</b>					
Cash and cash equivalents	\$ 1,884	\$ (412)	\$ 2,859	\$ —	\$ 4,331
Accounts receivable, net	—	82,109	27,791	(1,977)	107,923
Inventories	—	56,087	15,442	—	71,529
Other current assets	10,727	8,238	5,627	—	24,592
Total current assets	12,611	146,022	51,719	(1,977)	208,375
Investment in subsidiaries	444,201	—	—	(444,201)	—
Property and equipment, net	2,937	197,538	5,207	—	205,682
Goodwill	—	95,115	20,952	—	116,067
Identifiable intangibles, net	—	12,998	2,769	—	15,767
Other assets, net	32,413	13,455	702	(17,692)	28,878
Total assets	<u>\$ 492,162</u>	<u>\$465,128</u>	<u>\$81,349</u>	<u>\$(463,870)</u>	<u>\$ 574,769</u>
<b>Current liabilities:</b>					
Foreign bank lines of credit	\$ —	\$ —	\$ 6,637	\$ —	\$ 6,637
Current portion of long-term debt	1,250	3,877	19	—	5,146
Accounts payable	1,259	19,774	16,960	(1,977)	36,016
Accrued liabilities	5,932	12,475	8,451	—	26,858
Total current liabilities	8,441	36,126	32,067	(1,977)	74,657
Long-term debt	169,825	8,798	18,315	(17,692)	179,246
Other liabilities	250	—	2,725	—	2,975
Preferred stock	20,000	—	—	—	20,000
Common stock	839	807	12,678	(13,485)	839
Paid-in capital	401,737	421,696	12,155	(433,851)	401,737
Unearned restricted stock	(555)	—	—	—	(555)
Cumulative translation adjustment	—	—	4,245	—	4,245
Retained deficit	(108,375)	(2,299)	(836)	3,135	(108,375)
Total stockholders' equity	313,646	420,204	28,242	(444,201)	317,891
Total liabilities and equity	<u>\$ 492,162</u>	<u>\$465,128</u>	<u>\$81,349</u>	<u>\$(463,870)</u>	<u>\$ 574,769</u>



**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF DECEMBER 31, 2003**  
**(in thousands)**

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Current assets:</b>					
Cash and cash equivalents	\$ 179	\$ (485)	\$ 4,998	\$ —	\$ 4,692
Restricted cash	8,029	—	—	—	8,029
Accounts receivable, net	—	70,446	32,536	(3,034)	99,948
Inventories	—	58,877	15,969	—	74,846
Other current assets	11,550	10,230	3,356	(2,500)	22,636
Total current assets	19,758	139,068	56,859	(5,534)	210,151
Investment in subsidiaries	425,449	—	—	(425,449)	—
Property and equipment, net	5,583	193,054	7,601	—	206,238
Goodwill	—	95,114	20,755	—	115,869
Identifiable intangibles, net	—	12,320	2,627	—	14,947
Other assets, net	40,048	6,065	(450)	(17,368)	28,295
Total assets	<u>\$ 490,838</u>	<u>\$445,621</u>	<u>\$ 87,392</u>	<u>\$(448,351)</u>	<u>\$ 575,500</u>
<b>Current liabilities:</b>					
Foreign bank lines of credit	\$ —	\$ —	\$ 10,610	\$ —	\$ 10,610
Current portion of long-term debt	—	3,259	—	—	3,259
Accounts payable	534	24,048	18,931	(3,034)	40,479
Accrued liabilities	3,742	10,787	9,865	(2,500)	21,894
Total current liabilities	4,276	38,094	39,406	(5,534)	76,242
Long-term debt	177,500	1,018	16,841	(11,759)	183,600
Other liabilities	134	(645)	2,783	(575)	1,697
Preferred stock	30,000	—	—	—	30,000
Common stock	811	2,613	12,670	(15,283)	811
Paid-in capital	390,788	425,504	22,116	(447,620)	390,788
Unearned restricted stock	(803)	—	—	—	(803)
Cumulative translation adjustment	—	—	5,033	—	5,033
Retained deficit	(111,868)	(20,963)	(11,457)	32,420	(111,868)
Total stockholders' equity	308,928	407,154	28,362	(430,483)	313,961
Total liabilities and equity	<u>\$ 490,838</u>	<u>\$445,621</u>	<u>\$ 87,392</u>	<u>\$(448,351)</u>	<u>\$ 575,500</u>

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004**  
(in thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ —	\$93,884	\$16,906	\$ —	\$110,790
Cost of revenues	—	86,251	17,150	—	103,401
Gross profit	—	7,633	(244)	—	7,389
General and administrative expense	1,960	—	162	—	2,122
Operating income (loss)	(1,960)	7,633	(406)	—	5,267
Other (income) expense	—	(111)	69	—	(42)
Interest expense	3,319	142	299	—	3,760
Income (loss) before income taxes	(5,279)	7,602	(774)	—	1,549
Income taxes (benefit)	(2,005)	2,943	(349)	—	589
Equity in earnings of subsidiaries	4,232	—	—	(4,232)	—
Net income	<u>\$ 958</u>	<u>\$ 4,659</u>	<u>\$ (425)</u>	<u>\$ (4,232)</u>	<u>\$ 960</u>

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003**  
(in thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ —	\$71,327	\$24,266	\$ —	\$95,593
Cost of revenues	—	67,334	22,120	—	89,454
Gross profit	—	3,993	2,146	—	6,139
General and administrative expense	861	—	118	—	979
Operating income (loss)	(861)	3,993	2,028	—	5,160
Other (income) expense	(33)	(42)	(47)	—	(122)
Interest expense	3,397	193	129	—	3,719
Income (loss) before income taxes	(4,225)	3,842	1,946	—	1,563
Income taxes (benefit)	(1,651)	1,551	879	—	779
Equity in earnings of subsidiaries	3,359	—	—	(3,359)	—
Net income	<u>\$ 785</u>	<u>\$ 2,291</u>	<u>\$ 1,067</u>	<u>\$ (3,359)</u>	<u>\$ 784</u>

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004**  
**(in thousands)**

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ —	\$263,041	\$56,692	\$ —	\$319,733
Cost of revenues	—	241,470	54,640	—	296,110
Gross profit	—	21,571	2,052	—	23,623
General and administrative expense	6,548	—	445	—	6,993
Operating income (loss)	(6,548)	21,571	1,607	—	16,630
Other (income) expense	(858)	(344)	164	—	(1,038)
Interest expense	10,045	375	465	—	10,885
Income (loss) before income taxes	(15,735)	21,540	978	—	6,783
Income taxes (benefit)	(5,980)	8,117	441	—	2,578
Equity in earnings of subsidiaries	13,960	—	—	(13,960)	—
Net income	<u>\$ 4,205</u>	<u>\$ 13,423</u>	<u>\$ 537</u>	<u>\$ (13,960)</u>	<u>\$ 4,205</u>

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003**

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ —	\$211,893	\$66,660	\$ —	\$278,553
Cost of revenues	—	196,293	61,107	—	257,400
Gross profit	—	15,600	5,553	—	21,153
General and administrative expense	2,967	—	278	—	3,245
Operating income (loss)	(2,967)	15,600	5,275	—	17,908
Other (income) expense	(206)	(191)	(931)	—	(1,328)
Interest expense	10,573	544	296	—	11,413
Income (loss) before income taxes	(13,334)	15,247	5,910	—	7,823
Income taxes (benefit)	(5,067)	5,540	2,660	—	3,133
Equity in earnings of subsidiaries	12,958	—	—	(12,958)	—
Net income	<u>\$ 4,691</u>	<u>\$ 9,707</u>	<u>\$ 3,250</u>	<u>\$ (12,958)</u>	<u>\$ 4,690</u>

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004**  
(in thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$(14,048)	\$ 19,377	\$ 3,746	\$ —	\$ 9,075
Net cash provided by (used in) investing activities:					
Capital expenditures, net of sales proceeds	(1,552)	(11,446)	(890)	—	(13,888)
Investments	16,967	(15,551)	(1,416)	—	—
Payments received on notes receivable	6,582	3,821	—	—	10,403
	<u>21,997</u>	<u>(23,176)</u>	<u>(2,306)</u>	<u>—</u>	<u>(3,485)</u>
Net cash provided by (used in) financing activities:					
Net borrowings (payments on) lines of credit, notes payable and long-term debt	(6,424)	3,747	(3,455)	—	(6,132)
Other	181	—	—	—	181
	<u>(6,243)</u>	<u>3,747</u>	<u>(3,455)</u>	<u>—</u>	<u>(5,951)</u>
Net increase (decrease) in cash and cash equivalents	1,706	(52)	(2,015)	—	(361)
Cash and cash equivalents:					
Beginning of period	178	(360)	4,874	—	4,692
End of period	<u>\$ 1,884</u>	<u>\$ (412)</u>	<u>\$ 2,859</u>	<u>\$ —</u>	<u>\$ 4,331</u>

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003**  
(in thousands)

	Parent Company Only	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$(14,261)	\$ 37,939	\$(3,456)	\$ —	\$ 20,222
Net cash provided by (used in) investing activities:					
Capital expenditures, net of sales proceeds	(1,690)	(14,292)	(2,267)	—	(18,249)
Investments	15,191	(20,820)	5,629	—	—
Payments received on notes receivable	333	838	—	—	1,171
	<u>13,834</u>	<u>(34,274)</u>	<u>3,362</u>	<u>—</u>	<u>(17,078)</u>
Net cash provided by (used in) financing activities:					
Net borrowings (payments on) lines of credit, notes payable and long-term debt	—	(3,524)	1,176	—	(2,348)
Other	176	—	—	—	176
	<u>176</u>	<u>(3,524)</u>	<u>1,176</u>	<u>—</u>	<u>(2,172)</u>
Net increase (decrease) in cash and cash equivalents	(251)	141	1,082	—	972
Cash and cash equivalents:					
Beginning of period	472	242	2,011	—	2,725
End of period	<u>\$ 221</u>	<u>\$ 383</u>	<u>\$ 3,093</u>	<u>\$ —</u>	<u>\$ 3,697</u>

**Note 12 — Legal and Other Matters**

In 2002, a Newpark subsidiary filed suit against LOMA asserting it had been overcharged for DuraBase™ composite mats purchased from Loma. On June 29, 2004, the Louisiana Fifteenth Judicial District Court granted judgment in favor of Newpark, affirming its interpretation of the pricing of the DuraBase™ composite mats and awarding Newpark \$11.7 million in damages for overcharges through December 31, 2002. The state court judgment further denied LOMA's and OLS Consulting Services, Inc.'s ("OLS") claim to void Newpark's exclusive license to use and sell the composite mats. Newpark's judgment has 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 Newpark's judgment pending appeal, LOMA filed for protection under Chapter 11 of the Bankruptcy Code on August 11, 2004. The bankruptcy court has ordered and confirmed the appointment of a trustee to assume control over LOMA's affairs while in Chapter 11. The appointment of a trustee allows Newpark to file its own plan of reorganization, which it intends to do. At this juncture, it is impossible to predict when or if LOMA will be successfully reorganized or the exact details of any plan of reorganization.

In connection with the judgment of the pricing litigation with LOMA in the second quarter of 2004, Newpark recorded a receivable from LOMA, totaling \$10.2 million, net of an allowance of approximately \$6.8 million. This receivable is included in other long-term assets as of September 30, 2004. The recorded value of the receivable is net of any allowances for amounts deemed to be uncollectible from LOMA in the future. Net reductions to inventory and property, plant and equipment in the amount of \$3.4 million and \$5.2 million, respectively, were recorded in connection with the recording of this receivable. 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.

Also as previously reported in Newpark's Annual Report on Form 10-K for the year ended December 31, 2003, in response to the filing of a lawsuit by Newpark Drilling Fluids, L.L.C., one of Newpark's subsidiaries, certain of the individual defendants in the lawsuit filed stockholder derivative claims with respect to alleged misconduct as a cross-complaint to the lawsuit. A settlement of this litigation was reached through mediation on July 15, 2004. While the final settlement documents have not been executed as of the date of this report, management expects to recover its cumulative legal and other costs over the term of the settlement and will avoid related legal costs in future periods. Newpark's total cost to date has been \$3.6 million, of which \$2.5 million was related to the original lawsuit and \$1.1 million was related to defense of the stockholders derivative claims. Newpark has received acknowledgement from its insurance carrier that defense costs of the stockholder derivative claims is a covered item subject to a deductible of \$100,000. Newpark has recorded a receivable in the amount of \$1.0 million as of September 30, 2004 related to the amount recoverable from the insurance carrier. Included in General and Administrative expense for the three month and nine month periods ended September 30, 2004, are defense costs, net of anticipated recovery totaling \$345,000 and \$2.3 million, respectively.

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

The following discussion of our financial condition, results of operations, liquidity and capital resources should be read together with our "Unaudited Consolidated Financial Statements" and "Notes to Unaudited Consolidated Financial Statements" as well as our annual report on Form 10-K for the year ended December 31, 2003.

**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. These 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 seven quarters is listed in the following table:

	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04
U.S Rig Count	897	1,028	1,088	1,109	1,118	1,163	1,228
Gulf Coast market	218	225	228	222	217	222	233
Gulf Coast market to total	24.3%	21.9%	21.0%	20.1%	19.4%	19.1%	19.0%
Canadian Rig Count	492	199	385	407	528	198	328

Source: Baker Hughes Incorporated

While rig count in the Gulf Coast market during the third quarter of 2004 improved in both sequential quarter and year-over-year comparisons, operations of the industry were adversely affected by numerous suspensions of activity due to the number of tropical weather systems affecting the region during the period. This impact on operations in the Gulf Coast market negatively affected the operating results of our business segments during the third quarter of 2004.

*Key Market Developments*

Our primary 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. In addition to our primary Gulf Coast Market, we operate in several other key markets, including Canada, the U.S. central region (including the U.S. mid-continent and U.S. Rocky Mountain regions), West Texas and areas surrounding the Mediterranean Sea. Revenues by key markets are as follows (dollars in millions):

	Three months ended September 30,					
	2004		2003		2004 vs. 2003	
	\$	%	\$	%	\$	%
Gulf Coast Oilfield	\$ 56.0	51%	\$49.4	52%	\$ 6.6	13%
Canada	7.7	7	12.3	13	(4.6)	(37)
U.S. Central	29.6	26	17.5	18	12.1	69
Mediterranean	7.2	7	11.4	12	(4.2)	(36)
Other	10.3	9	5.0	5	5.3	104
Total	<u>\$110.8</u>	<u>100%</u>	<u>\$95.6</u>	<u>100%</u>	<u>\$15.2</u>	<u>16%</u>

	Nine months ended September 30,					
	2004		2003		2004 vs. 2003	
	\$	%	\$	%	\$	%
Gulf Coast Oilfield	\$159.8	50%	\$150.1	54%	\$ 9.7	6%
Canada	28.5	9	37.9	14	(9.4)	(25)
U.S. Central	77.9	24	43.0	15	34.9	81
Mediterranean	25.6	8	27.9	10	(2.3)	(8)
Other	27.9	9	19.6	7	8.3	42
Total	<u>\$319.7</u>	<u>100%</u>	<u>\$278.5</u>	<u>100%</u>	<u>\$41.2</u>	<u>15%</u>

Our primary Gulf Coast oilfield market accounted for approximately 51% of third quarter 2004 revenues, as compared to 52% of third quarter 2003 revenues. As recently as 1997, the Gulf Coast oilfield market accounted for 97% of total revenues. The decline in the percentage of Gulf Coast revenues is the result of growth in most other market revenues relative to flat Gulf Coast market activity in the comparable periods.

The Canadian market accounted for approximately 7% of third quarter 2004 revenues, as compared to 13% of third quarter 2003 revenues. This year over year decline is principally related to adverse weather conditions in our Canadian market. While we always anticipate and forecast a seasonal decline in the Canadian market during the second and third quarters, this year's weather related decline was extreme. Much of the drilling activity in Canada has historically been conducted when winter temperatures freeze the soil and stabilize it, allowing safe access. Quarterly fluctuations in the Canadian rig count generally reflect the seasonal nature of drilling activity related to these access issues.

The U.S. Central region, composed of the U.S. Rocky Mountains, Oklahoma and West Texas, accounted for approximately 27% of third quarter 2004 revenues, as compared to 18% of third quarter 2003 revenues. Revenue growth in 2004 is primarily associated with the increase in rig activity and an increase in market share. The increase in market share is principally related to growing acceptance of our proprietary drilling fluids products.

Our Mediterranean operations accounted for approximately 7% of third quarter 2004 revenues, as compared to 12% of third quarter 2003 revenues. The year over year decline in quarterly revenue for the Mediterranean operations is principally related to the effect of a decline in the U.S. dollar on Euro denominated contracts and the completion of

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several contracts. We are now focusing the management of these operations on improving margins rather than increasing revenues.

### *Other Market Trends*

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. In addition, any anticipated growth in rig counts is likely to be concentrated in the land market. The number of rigs active in the offshore and inland water Gulf Coast markets is not expected to increase due to a lack of available rigs, as many rigs have recently been mobilized to other markets. We anticipate continued revenue growth in the markets we serve, driven by increased market penetration of critical, deep water and geologically deeper wells. This market penetration is the result of our performance and continued success of new products, including our DeepDrill™ and FlexDrill™ families of products.

Current long-term industry forecasts anticipate difficulty in meeting growing demand for natural gas, predicated upon improving economic conditions. 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. We expect gas drilling activity to be increasingly associated with deeper, more costly wells. We view this trend as favorable to demand for product offerings in all of our segments.

### **Results of Operations**

Effective January 1, 2004, we implemented a segment change in the financial reporting of our Canadian operations. As a result of this change, the operating results for the environmental services business unit in Canada are now included as a component of the E&P waste disposal segment, rather than within the fluids sales and engineering segment. In addition, a portion of the operating costs of the Canadian business unit are now reported as a component of G&A expenses. All segment information for the prior year has been restated to reflect these reporting changes. Summarized financial information concerning our reportable segments is shown in the following table (dollars in millions):



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	Three Months Ended September 30,		Increase/(Decrease)	
	2004	2003	\$	%
Revenues by segment:				
Fluids sales & engineering	\$ 71,448	\$57,089	\$14,359	25%
E&P waste disposal	15,363	18,634	(3,271)	(18)
Mat & integrated services	23,979	19,870	4,109	21
Total revenues	<u>\$110,790</u>	<u>\$95,593</u>	<u>\$15,197</u>	16%
Operating income by segment:				
Fluids sales & engineering	\$ 4,978	\$ 2,791	\$ 2,187	78%
E&P waste disposal	1,243	3,908	(2,665)	(68)
Mat & integrated services	1,168	(560)	1,728	NM
Total by segment	7,389	6,139	1,250	20
General and administrative expenses	2,122	979	1,143	117
Total operating income	<u>\$ 5,267</u>	<u>\$ 5,160</u>	<u>\$ 107</u>	2%

	Nine Months Ended September 30,		Increase/(Decrease)	
	2004	2003	\$	%
Revenues by segment:				
Fluids sales & engineering	\$196,042	\$158,590	\$37,452	24%
E&P waste disposal	47,619	51,028	(3,409)	(7)
Mat & integrated services	76,072	68,935	7,137	10
Total revenues	<u>\$319,733</u>	<u>\$278,553</u>	<u>\$41,180</u>	15%
Operating income by segment:				
Fluids sales & engineering	\$ 13,778	\$ 8,667	\$ 5,112	59%
E&P waste disposal	5,612	9,690	(4,078)	(42)
Mat & integrated services	4,232	2,796	1,436	51
Total by segment	23,622	21,153	2,470	12
General and administrative expenses	6,993	3,245	3,748	116
Total operating income	<u>\$ 16,629</u>	<u>\$ 17,908</u>	<u>\$ (1,278)</u>	(7)%

NM – Not Meaningful

The figures above are shown net of intersegment transfers.

**Quarter Ended September 30, 2004 Compared to Quarter Ended September 30, 2003***Revenues*

Fluids Sales and Engineering: Total revenue by region for this segment was as follows for the three months ended September 30, 2004 and 2003 (dollars in millions):

	2004	2003	2004 vs. 2003	
			\$	%
Gulf Coast	\$30.1	\$22.8	\$ 7.3	32%
U.S. Central	28.4	16.4	12.0	73
Canada	3.3	4.9	(1.6)	(32)
Other	2.4	1.6	.8	50
Total North American	64.2	45.7	18.5	40
Mediterranean	7.2	11.4	(4.2)	(37)
Total	\$71.4	\$57.1	\$14.3	25%

The average number of rigs we serviced in the North American market increased by 43%, from 133 in the third quarter of 2003 to 190 in the third quarter of 2004, as compared to a 6% increase in the North American rig count during the same periods. Average annual revenue per rig in the North American market remained relatively unchanged at approximately \$1.3 million in the third quarter of 2004 and 2003.

Revenue in our primary Gulf Coast market for the third quarter of 2004 increased \$7.3 million, or 32%, as compared to the third quarter of 2003 while the number of rigs active in this market increased only 2%. We have continued to improve our market position in key drilling fluid customer relationships in this market and believe that those customers will be increasingly active in the Gulf Coast market during the remainder of the year and into 2005, though the total number of active rigs is not expected to increase significantly. The growth experienced in the Gulf Coast market in the third quarter of 2004 was negatively impacted by the severity of tropical weather systems during the quarter, especially during the month of September. Several key Gulf of Mexico projects have recently started for our customers, and we expect to see progress in this market during the remainder of 2004.

Revenues in the U.S. Central region increased 73% in the third quarter of 2004, as compared to 2003. We serviced an average of 114 rigs in this region in the third quarter of 2004, as compared to 67 in the third quarter of 2003, an increase of 70%. The average number of rigs operating in this region increased 23%, from 400 rigs in the third quarter of 2003 to 493 in the third quarter of 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.

Revenues in the Canadian market declined 32% during the quarter ended September 30, 2004, as compared to the third quarter of 2003, on a 15% decline in rig activity. The areas within Canada that we principally serviced experienced extreme weather-related declines as compared to the prior year and as compared to other areas in the Canadian market. We expect the normal seasonal recovery to occur in this market during the remainder of 2004.

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Revenues in the Mediterranean market declined 37% during the quarter ended September 30, 2004, as compared to the third quarter of 2003. This year over year decline in quarterly 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. We are now focusing the management of these operations on improving margins rather than increasing revenues..

E&P Waste Disposal: Total revenue for this segment consists of the following for the three months ended September 30, 2004 and 2003 (dollars in millions):

	2004	2003	2004 vs. 2003	
			\$	%
E&P Waste Gulf Coast	\$ 9.3	\$ 11.9	\$(2.6)	(22)%
E&P Waste Non-Gulf Coast	4.9	5.3	(.4)	(8)
NORM	1.0	.8	.2	25
Industrial	.2	.6	(.4)	(67)
Total	\$15.4	\$18.6	\$(3.2)	(18)%

E&P waste Gulf Coast revenues declined \$2.6 million, or 22%, on a 26% decline in waste volumes received and a decline in the average revenue per barrel resulting from a change in mix of waste received. During the third quarter of 2004, we received 640,000 barrels of E&P waste in the Gulf Coast market, compared to 945,000 barrels in the comparable period in 2003. A majority of the decline in barrels received was in the offshore and inland water markets due principally to the effects of tropical weather during the recent quarter and lower average drilling activity in the offshore Gulf of Mexico. The average revenue per barrel in the Gulf Coast market declined 4%, to \$11.97, as compared to an average of \$12.41 in 2003. We believe that improvement in the Gulf Coast E&P waste market will likely trail other business segments because its results are more closely tied to Gulf Coast rig activity, which is not expected to increase significantly during the remainder of 2004.

Revenues within the western Canadian market and the operations serving Wyoming's Jonah-Pinedale trend remained relatively stable in the third quarter of 2004 as compared to the third quarter of 2003. Near term growth for the E&P Waste Disposal segment is expected to continue to come from these newer markets.

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Mat and Integrated Services: Total revenue for this segment consists of the following for the three months ended September 30, 2004 and 2003 (dollars in millions):

	2004	2003	2004 vs. 2003	
			\$	%
Installation	\$ 3.5	\$ 2.9	\$ .6	20%
Re-rental	1.5	2.3	(.8)	(35)
Total U.S. mat rental	5.0	5.2	(.2)	(4)
Integrated services and other	12.6	11.2	1.4	13
Canadian operations	.8	3.1	(2.3)	(74)
Composite mat sales	5.6	.4	5.2	NM
Total	\$24.0	\$19.9	\$ 4.1	21%

NM – Not meaningful

Mat rental volume for the third quarter of 2004 totaled 3.4 million square feet at an average price of \$1.04 per square foot. This compares to 3.9 million square feet at an average of \$0.72 per square foot in the third quarter of 2003. We are currently focused on continuing to improve oil-field rental market pricing and expanding the non-oilfield rental market. The non-oilfield rental market is premium-priced and carries high incremental margins that should contribute to further improvement in average pricing and results for the mat segment in the fourth quarter.

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 exploration and production activities. These revenues also include the operations of our sawmill in Batson, Texas. The level of these revenues is often project driven.

During 2003, we transitioned our Canadian mat operations to a sales organization for wooden and composite mats. All of the Canadian revenue for the third quarter of 2004 was related to sales of wooden and composite mats, while revenue for the third quarter of 2003 included rental and sales revenues. Through this transition, the operating expenses of the Canadian mat operations have been significantly reduced.

During the third quarter of 2004, we recognized approximately \$5.6 million in composite mat sales. During the quarter we sold approximately 3,000 DuraBase™ composite mats, resulting in \$5.1 million in revenues, and we sold approximately 3,600 Bravo™ Mats, resulting in approximately \$500,000 in revenues. Composite mat sales totaled approximately \$400,000 in the third quarter of 2003.

Based on market data gathered in 2003 and 2004, we believe there is significant rental opportunity in support of expanding exploration and development activity in Mexico. As a result, we started a new business unit in that country in the first quarter. We are the majority owner of the business with the Mexican principals who are assisting us in development of the market holding a minority stake.

*Operating Income*

Fluids Sales and Engineering: Operating income for this segment increased \$2.2 million in the third quarter of 2004 on a \$14.4 million increase in revenues, as compared to the third quarter of 2003. The operating margin for this segment in the third quarter of 2004 was 7.0%, as compared to 4.9% in the third quarter of 2003. The increase in operating margin was primarily attributable to operating leverage, principally within the Gulf Coast and U.S. Central regions, which was partially offset by the decline in Canadian revenue related to severe weather conditions and the decline in Mediterranean revenues related to foreign currency and lower contract revenue.

Operating margins in 2004 for this segment have been impacted by increased pricing for barite, principally related to increased transportation costs for bulk shipments of barite from our suppliers. These raw material cost increases were not offset by price increases to our customers in the quarter. We are in the process of increasing our barite prices to customers and expect the effects of the raw material cost increase to be offset over the next several quarters. In addition to the increase in barite costs, margins for the Gulf Coast market were negatively impacted in the current quarter by the impact of the severe tropical weather in September.

We anticipate an increase in the number of rigs serviced in the Gulf of Mexico market during the remainder of 2004, as awarded projects begin. This market represents the premium-priced business for this segment. We expect to see margin improvement in our Gulf Coast operations throughout the remainder of 2004 as we continue to penetrate the offshore Gulf of Mexico market and gain wider customer acceptance of our higher-margin premium products such as our DeepDrill™ and FlexDrill™ family of products. In addition, we expect margins to improve in this segment for the remainder of 2004 due to the normal seasonal recovery of the Canadian market.

E&P Waste Disposal: Waste disposal operating income declined \$2.7 million in the third quarter of 2004 on a \$3.3 million decline in revenues, as compared to the third quarter of 2003. As noted above, the primary decline in revenues for the quarter was in the premium-priced Gulf Coast markets, which was principally related to the severe tropical weather systems in the quarter. In addition, fuel and transportation expenses increased significantly in the third quarter of 2004 as compared to the prior year. We are currently working to reduce our cost structure to improve profitability in the Gulf Coast market.

Mat and Integrated Services: Mat and integrated services operating income increased \$1.7 million in the third quarter of 2004 on a \$4.1 million increase in revenues, as compared to the third quarter of 2003. Most of the increase in operating income is attributable to the significant increase in composite mat sales in 2004. Consistent with our experience since the third quarter of 2003, we believe that rental pricing will continue to improve over the remainder of 2004 as a result of continued reductions in mat inventories servicing the oilfield market and continued growth in the premium-priced non-oilfield markets.

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### *General and Administrative Expense*

General and administrative expense increased \$1.1 million to approximately \$2.1 million in the third quarter of 2004, as compared to the same period in 2003. The increase is primarily related to increases in insurance costs of approximately \$380,000, costs of approximately \$345,000 related to the litigation which has recently been settled, and start up costs of approximately \$247,000 related to our new joint venture in Mexico. In addition, general and administrative expenses have increased as a result of new corporate governance and compliance related expenses.

### *Interest Expense*

Interest expense remained relatively unchanged at \$3.8 million for the third quarter of 2004 as compared to \$3.7 million for the third quarter of 2003. Average debt outstanding declined \$6.5 million during the third quarter of 2004, as compared to the same period in 2003. This decline in average debt outstanding was offset by a slight increase in the average interest rate and a decline in capitalized interest.

### *Provision for Income Taxes*

For the quarter ended September 30, 2004, we recorded an income tax provision of \$589,000, reflecting an income tax rate of 38%. For the quarter ended September 30, 2003, we recorded an income tax provision of \$779,000, reflecting an income tax rate of 49.8%. The effective tax rate in the prior year is higher than statutory rates due to adjustments made in the quarter to reflect increases in the projected annual effective tax rate as a result of changes in projected income. The prior year effective tax rate also reflected a higher mix of foreign income, which is taxed at higher rates than domestic income.

### **Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003**

#### *Revenues*

Fluids Sales and Engineering: Total revenue by region for this segment was as follows for the nine months ended September 30, 2004 and 2003 (dollars in millions):

	2004	2003	2004 vs. 2003	
			\$	%
Gulf Coast	\$ 80.3	\$ 66.6	\$13.7	21%
U.S. Central	74.1	40.8	33.3	82
Canada	13.1	20.2	(7.1)	(35)
Other	2.9	3.1	(.2)	(6)
Total North American	170.4	130.7	39.7	30
Mediterranean	25.6	27.9	(2.3)	(8)
Total	\$196.0	\$158.6	\$37.4	24%

The average number of rigs we serviced in the North American market increased by 24%, from 137 in the first nine months of 2003 to 170 in the first nine months of 2004. Average annual revenue per rig in the North American market remained relatively unchanged at approximately \$1.2 million for the first nine months of 2004 and 2003.

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Revenue in our primary Gulf Coast market for the first nine months of 2004 increased \$13.7 million, or 21%, as compared to the first nine months of 2003, as a result of increased market penetration, in spite of the stable number of rigs active in this market. Most of this increase occurred in the second quarter of 2004. As noted above, revenues in the Gulf Coast market were negatively impacted by severe tropical weather systems during the third quarter of 2004.

Revenues in the U.S. Central region increased 82% in the first nine months of 2004 as compared to 2003. We serviced an average of 98 rigs in this region in the first nine months of 2004, as compared to 60 in the first nine months of 2003, an increase of 63%. The average number of rigs operating in this region increased 28%, from 363 rigs in the first nine months of 2003 to 465 in the first nine months of 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 35% during the first nine months of 2004, as compared to the first nine months of 2003, while rig activity in the Canadian market declined 2% period to period. The areas within Canada that we principally serviced experienced extreme weather-related declines as compared to the prior year and as compared to other areas in the Canadian market.

Revenues in the Mediterranean market declined 8% during the first nine months of 2004, as compared to the first nine months of 2003. This year over year decline in quarterly 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. As noted above, beginning in 2004, we have focused the management of these operations on improving margins rather than increasing revenues.

E&P Waste Disposal: Total revenue for this segment consists of the following for the nine months ended September 30, 2004 and 2003 (dollars in millions):

	2004	2003	2004 vs. 2003	
			\$	%
E&P Waste Gulf Coast	\$29.2	\$35.8	\$(6.6)	(18)%
E&P Waste Non-Gulf Coast	14.3	12.1	2.2	18
NORM	2.1	1.5	.6	40
Industrial	2.0	1.6	.4	25
Total	\$47.6	\$51.0	\$(3.4)	(7)%

E&P waste Gulf Coast revenues declined \$6.6 million, or 18%, on a 14% decline in waste volumes received and a decline in the average revenue per barrel resulting from a change in mix of waste received. During the first nine months of 2004, we received 2,354,000 barrels of E&P waste in the Gulf Coast market, compared to 2,740,000 barrels in the comparable period in 2003. A portion of the decline in barrels received is attributable to the effects of severe tropical weather in the third quarter of 2004. The average revenue per barrel in the Gulf Coast market declined 6%, to \$11.90, as compared to an average of \$12.63 in 2003.

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The decline in Gulf Coast revenues was partially offset by increases in revenue within the western Canadian market and the start-up of operations serving Wyoming's Jonah-Pinedale trend, which began operations in early 2003. Our NORM and industrial disposal revenue also contributed to the increase in segment 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.

Mat and Integrated Services: Total revenue for this segment consists of the following for the nine months ended September 30, 2004 and 2003 (dollars in millions):

	2004	2003	2004 vs. 2003	
			\$	%
Installation	\$12.3	\$12.6	\$ (.3)	(2)%
Re-rental	4.4	6.6	(2.2)	(34)
Total U.S. mat rental	16.7	19.2	(2.5)	(13)
Integrated services and other	36.6	34.3	2.3	7
Canadian operations	5.0	7.9	(2.9)	(37)
Composite mat sales	17.8	7.5	10.3	137
Total	\$76.1	\$68.9	\$ 7.2	10%

Mat rental volume for the first nine months of 2004 totaled 12.7 million square feet at an average price of \$0.97 per square foot. This compares to 12.6 million square feet at an average of \$0.85 per square foot in the first nine months of 2003.

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

During the first nine months of 2004, we recognized approximately \$17.8 million in composite mat sales. During this period we sold approximately 10,700 DuraBase™ composite mats, resulting in \$17.3 million in revenues, and we sold approximately 3,600 Bravo™ Mats, resulting in approximately \$500,000 in revenues. During the first nine months of 2003, we recognized approximately \$7.5 million in composite mat sales. During this period we sold approximately 3,800 DuraBase™ composite mats, resulting in \$7.0 million in revenues, and we sold approximately 4,100 Bravo™ Mats, resulting in approximately \$500,000 in revenues.

### *Operating Income*

Fluids Sales and Engineering: Operating income for this segment increased \$5.1 million in the first nine months of 2004 on a \$37.5 million increase in revenues, as compared to the first nine months of 2003. The operating margin for this segment in the first nine months of 2004 was 7.0%, as compared to 5.5% in the first nine months of 2003. The increase in operating margin was primarily attributable to significant growth in the U.S. central 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.



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As noted above, operating margins in 2004 for this segment have been impacted by increased pricing for barite, principally related to increased transportation costs for bulk shipments of barite from our suppliers. These raw material cost increases were not offset by price increases to our customers in the quarter. We are in the process of increasing our barite prices to customers and expect the effects of the raw material cost increase to be offset over the next several quarters. In addition to the increase in barite costs, margins for the Gulf Coast market were negatively impacted in the third quarter by the impact of the severe tropical weather.

**E&P Waste Disposal:** Waste disposal operating income declined \$4.0 million in the first nine months of 2004 on a \$3.4 million decline in revenues, as compared to the first nine months of 2003. Contribution increases from non-Gulf Coast markets did not fully offset the volume-related decline in the premium-priced Gulf Coast oilfield market, which was partially due to severe 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.

**Mat and Integrated Services:** Mat and integrated services operating income increased \$1.4 million in the first nine months of 2004 on a \$7.1 million increase in revenues, as compared to the first nine months of 2003. Most of the increase in operating income is attributable to the significant increase in composite mat sales in 2004.

### *General and Administrative Expense*

General and administrative expense increased \$3.7 million to approximately \$7.0 million in the first nine months of 2004, as compared to the same period in 2003. The majority of the increase is due to \$2.3 million of litigation costs related to recently settled litigation. In addition, general and administrative expense increased approximately \$490,000 as a result of new corporate governance and compliance related expenses and approximately \$337,000 due to start up costs related to our new joint venture in Mexico. Increased insurance and personnel costs were the principal reasons for the remaining increase in general and administrative expense.

### *Foreign Currency Exchange Gains*

Net foreign currency losses totaled \$217,000 in the first nine months of 2004 as compared to net foreign currency gains of \$758,000 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 the first nine months of 2004, the net foreign currency losses were primarily associated with strengthening of the U.S. dollar against the Canadian dollar and the associated impact on these same intercompany balances.

### *Interest Income*

Interest income totaled \$1.3 million in the first nine months of 2004, as compared to \$570,000 in the first nine months of 2003. During the first nine months of 2004 we collected the entire balance owed on a note receivable in connection with the 1996 sale of a

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former shipyard operation. The payment included all interest accruable on the note receivable. We had ceased accrual on the note receivable in January 2003 due to the financial condition of the operator. Included in interest income for the nine months ended September 30, 2004 is \$823,000 of previously unaccrued interest related to the note receivable.

### *Interest Expense*

Interest expense of \$10.9 million declined \$528,000 from the prior year amount of \$11.4 million. The decline is principally related to lower total cost of our revolving credit facility. During the first quarter of 2004, we completed the restructuring of our bank credit facility, which reduced the effective interest rate on our revolving facility by approximately one percent.

### *Provision for Income Taxes*

For the nine months ended September 30, 2004, we recorded an income tax provision of \$2.6 million, reflecting an income tax rate of 38%. For the nine months ended September 30, 2003, we recorded an income tax provision of \$3.1 million, reflecting an income tax rate of 40%. The prior year effective tax rate reflected a higher mix of foreign income, which is taxed at higher rates than domestic income.

## **Liquidity and Capital Resources**

Our working capital position was as follows at September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003
Working Capital (000's)	\$133,718	\$133,909
Current Ratio	2.79	2.76

During the first nine months of 2004, our working capital position remained stable, in spite of the effect of an \$8.0 million reduction in restricted cash which had been used to secure a letter of credit obligation at December 31, 2003. Net of the effect of the restricted cash item, working capital increased by \$7.8 million, with most of this growth associated with an increase in accounts receivable related to the increase in annualized revenues at September 30, 2004 as compared to December 31, 2004.

As a result of a favorable judgment in our pricing dispute litigation with the manufacturer of our composite mats ("LOMA"), during the second quarter of 2004 we reduced the carrying value of our composite mat inventory by \$3.4 million. LOMA is currently not producing mats due to low demand, and purchases of composite mats in 2004 were limited to LOMA's remaining inventory of approximately 2,500 units. As of June 30, 2004, all of LOMA's remaining inventory had been purchased. With this decline in purchases, along with anticipated composite mat sales in 2004, we expect to continue to reduce the level of composite mat inventory by the end of 2004. The decline in composite mat inventory was partially offset by an increase in drilling fluids raw materials and

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components as a result of actual and anticipated increased revenues for this business segment and by the normal seasonal increase in logs at our sawmill in Batson, Texas.

Net trade accounts receivable increased \$8.0 million during the first nine months of 2004 on a \$16.2 million increase in revenues from the fourth quarter of 2003. During the first nine months of 2004, days sales in receivables declined by seven days to 91 days, from 98 days in the fourth quarter of 2003. We continue to monitor our accounts receivable positions and have made working capital management a primary focus for our management.

We anticipate that our working capital requirements for the remainder of 2004 and 2005 will increase as a result of the expected improvement in revenue. Some of this expected increase in working capital requirements should be offset by our continued focus on improving our collection cycle and anticipated reductions in composite mat inventory. 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 the first nine months of 2004 totaled \$9.1 million. This cash, along with \$10.4 million of collections on notes receivable, principally from the second quarter collection of a \$6.3 million note receivable related to the 1996 sale of a former shipyard operation, was used to fund net capital expenditures of \$13.9 million and net payments on debt obligations of \$6.1 million. We anticipate that 2004 capital expenditures will be below 2004 depreciation and that we will fund capital expenditures for the remainder of 2004 with cash generated from operations. The majority of the remaining amounts of 2004 capital expenditures are expected to be used principally to expand drilling fluids and environmental service capacity in growing markets as and when needed and will be adjusted depending on market conditions, our operating cash flows and other available cash resources. We currently anticipate that capital expenditures in 2005 will again be lower than depreciation.

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Our long term capitalization was as follows (in thousands):

	September 30, 2004	December 31, 2003
Long-term debt:		
Credit facility	\$ 31,283	\$ 52,500
Senior subordinated notes	125,000	125,000
Barite facilities financing	13,542	—
Mexico mat financing	5,493	—
Other	3,928	6,100
Total long-term debt	179,246	183,600
Stockholders' equity	317,891	313,961
Total capitalization	\$497,137	\$497,561
Long-term debt to long-term capitalization	36.1%	36.9%

On February 25, 2004, our bank credit facility was amended, restated and converted into an asset-based lending facility (the "Credit Facility"). The Credit Facility matures on February 25, 2007. Under the Credit Facility, we can borrow up to \$85 million in the form of \$15 million in term debt and \$70 million in revolving debt. At September 30, 2004, \$12.6 million was outstanding under the term portion of the Credit Facility. Availability 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 September 30, 2004, total availability under the revolving portion of the Credit Facility was \$57.9 million. At September 30, 2004, \$10.8 million in letters of credit were issued and outstanding and \$18.7 million was outstanding under the revolving portion of the Credit Facility, leaving \$28.4 million of availability under the revolving portion of the Credit Facility at that date. The Credit Facility bears interest at either a specified prime rate (4.75% at September 30, 2004), or the LIBOR rate (1.98% at September 30, 2004), 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 three months ended September 30, 2004 and 2003 were 4.4% and 5.7%, respectively. The weighted average interest rates on the outstanding balances under the respective credit facilities for the nine months ended September 30, 2004 and 2003 were 4.7% and 5.6%, respectively.

During the third quarter of 2004, we closed a \$15 million project financing of our recently completed barite mill, and \$6.7 million in support of the new mat rental operation in Mexico. Proceeds from these transactions were applied to reduce advances under the Credit Facility.

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

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customers. As of September 30, 2004, Ava had a total of \$6.6 million outstanding under these facilities. We do not provide a corporate guaranty of Ava's debt.

With respect to off balance sheet liabilities, we lease most of our office and warehouse space, rolling stock and certain pieces of operating equipment under operating leases. We have issued a guaranty of certain debt obligations of the manufacturer of our composite mats ("LOMA"). This guaranty is backed by a letter of credit. The amount of this guaranty as of September 30, 2004 was \$7.1 million.

The underlying debt obligation of LOMA matures in December 2008. The LOMA plant suspended production in May 2003 and has not resumed operations. As described in Note 12, on May 13, 2004, the Louisiana Fifteenth District Court judge awarded a judgment in the full amount of our complaint in a pricing dispute with LOMA. Lacking adequate liquidity from which to satisfy the judgment in cash, on August 11, 2004, Loma filed for protection under Chapter 11 of the Bankruptcy Code. The bankruptcy court has ordered and confirmed the appointment of a trustee to assume control over LOMA's affairs while in Chapter 11. The appointment of a trustee allows us to file our own plan of reorganization, which we intend to do. At this juncture, it is impossible to predict when or if LOMA will be successfully reorganized or the exact details of any plan of reorganization. Because of the recent bankruptcy filing by LOMA, our guarantee may be called upon to fulfill LOMA's debt obligation. Since our guarantee is secured by a letter of credit, there would not be any impact on the availability under our Credit Facility should performance under the guarantee be required.

We have also issued a guaranty for certain debt obligations of a joint venture ("MOCTX"), which supplies a portion of our wooden mats on a day rate leasing basis. The amount of this guaranty as of September 30, 2004 was \$4.6 million.

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.

### ***Critical Accounting Policies and Estimates.***

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles, which require 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. 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.

For additional discussion of our critical accounting policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2003. Following is a

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clarification of our revenue recognition policies included in that report. Our critical accounting policies have not changed materially since December 31, 2003.

For the fluids sales and engineering segment, revenues, less allowances for product returns, are recognized for sales of drilling fluid materials upon shipment of the materials. Engineering and related services are provided to customers at agreed upon hourly or daily rates, and revenues are recognized when the services are performed. The reserve for estimated product returns is based on our historical experience of the percentage of returns, which in turn is based on the size and type of rig serviced and the nature of the products consumed by the customer. These percentages are periodically reviewed and updated and are applied to our drilling fluids product sales to determine the required reserve. Revisions to the return reserve are charged or credited to income in the period in which they occur.

For the E&P waste disposal 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 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 provided for in 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.

### ***New Accounting Standards.***

On March 31, 2004, the Financial Accounting Standards Board ("FASB") issued a proposed Statement, "Share-Based Payment," that addresses the accounting for share-based payment transactions under which a company receives employee services in exchange for equity instruments of the company, such as stock options. The proposed Statement would eliminate the ability to account for share-based compensation transactions using Accounting Principles Board Opinion 25. ("APB 25") and generally would require instead that such transactions be accounted for using a fair value-based method. We currently account for stock-based compensation using APB 25. On October 13, 2004, the FASB concluded Financial Accounting Standard 123R ("FAS 123R"), "Share-

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Based Payment,” which will require companies to measure compensation cost for all share-based payments at fair value, to be effective for interim or annual periods beginning after June 15, 2005. The proposed Statement, if adopted, would require us to begin accounting for stock options under this method beginning in the quarter ended September 30, 2005. It is currently not known whether the implementation of FAS 123R would result in financial results materially different from those presented in Note 5 or if we will early adopt this Statement, as encouraged by the FASB.

In January 2003, the FASB issued Financial Interpretation Number 46 (“FIN 46”) “Consolidation of Variable Interest Entities,” which clarifies the application of Accounting Research Bulletin 51, “Consolidated Financial Statements”, to certain entities (called variable interest entities) in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The disclosure requirements of FIN 46 were effective for all financial statements issued after January 31, 2003. The consolidation requirements apply to all variable interest entities created after January 31, 2003. In addition, public companies were required to apply the consolidation requirements to variable interest entities that existed prior to February 1, 2003 and remained in existence as of the beginning of annual or interim periods beginning after March 15, 2004.

We have completed our assessment of the impact of FIN 46 on the reporting for our three variable interest entities. These variable interest entities consist of a 90% interest in a Mexican joint venture for the sale and lease of DuraBase™ composite mats in the Mexican market (DuraBase de Mexico), a 49% interest in a joint venture with the leading producer of wooden mats (“MOCTX”) and a 49% interest in the Loma Company, LLC (“LOMA”), the producer of DuraBase™ composite mats. Based on our assessments, we determined that we are the primary beneficiary of DuraBase de Mexico, and have consolidated the financial statements of DuraBase de Mexico with our financial statements. Based on our assessments, we determined that we are not the primary beneficiary of MOCTX and we continue to account for this investment under the equity method. We issued a guaranty for certain debt obligations of MOCTX. The amount of this guaranty as of September 30, 2004 was \$4.6 million.

Based on our assessments, we determined that we are the primary beneficiary of LOMA. However, we continue to account for our 49% investment in LOMA under the equity method because LOMA’s financial position and results of operations are not material to our consolidated financial statements. In addition, due to the ongoing dispute and pricing litigation discussed in Note 12, we currently do not have access to and have been unable to obtain current and reliable financial information as of and for the period ended September 30, 2004. Based on the latest available financial information on LOMA, which is as of December 31, 2003, LOMA would have represented less than 2% of our consolidated total assets as of December 31, 2003. Substantially all of the operating activity of LOMA is with us or one of our wholly-owned subsidiaries and this activity would be eliminated in consolidation. Our investment in LOMA as of September 30, 2004 was \$11.4 million, including \$10.2 million in receivables recorded in connection with the recent judgment in our pricing dispute (see Note 12).

We have issued a guaranty of certain debt obligations of LOMA. This guaranty is backed by a letter of credit. The amount of this guaranty as of September 30, 2004 was

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\$7.1 million. The LOMA plant suspended production in May 2003 and has not resumed operations. On August 11, 2004, The Loma Company initiated a Chapter 11 Reorganization Proceeding in the Federal Bankruptcy Court for the Western District of Louisiana.

### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risk from changes in interest rates and changes in foreign currency rates. We do not believe that we have a material exposure to market risk. Historically, we have not entered into derivative financial instrument transactions to manage or reduce market risk or for speculative purposes. A discussion of our primary market risk exposure in financial instruments is presented below.

#### *Interest Rate Risk*

Our policy has historically been to manage exposure to interest rate fluctuations by using a combination of fixed and variable-rate debt. At September 30, 2004, we had total debt outstanding of \$191.1 million, of which \$125 million, or 65%, relates to our Senior Subordinated Notes (the "Notes"), which bear interest at a fixed rate of 8.625%. The remaining \$66.1 million of debt outstanding at September 30, 2004 bears interest at a floating rate. At September 30, 2004, the weighted average interest rate under our floating-rate debt was approximately 5.2%. Assuming a 200 basis point increase in market interest rates during 2004, our annual interest expense would increase approximately \$800,000, net of taxes, resulting in a \$0.01 per diluted share reduction in annual earnings.

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.

#### *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 September 30, 2004. The fair value of the 8.625% Notes totaled \$126.7 million at September 30, 2004. The fair value of the Notes has been estimated based on quotes from the lead broker.

#### *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 enter into a transaction denominated in a currency other than our local currencies because the dollar amount of these transactions has not warranted our using hedging instruments.

During the three months and nine months ended September 30, 2004, we reported foreign currency losses of \$76,000 and \$217,000, respectively. During the three months and nine months ended September 30, 2003, we reported a foreign currency loss of \$16,000



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and a foreign currency gain of \$758,000, respectively. These transactional gains and losses were primarily due to exchange rate fluctuations related to monetary asset balances denominated in currencies other than the functional currency, including intercompany advances which are 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 \$500,000, 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 loss in the stockholders' equity section of our balance sheet. Included in comprehensive income are a translation loss of \$788,000 and a translation gain of \$5.1 million for the nine months ended September 30, 2004 and 2003, respectively. As of September 30, 2004, net assets of foreign subsidiaries included in our consolidated balance sheet totaled \$28.2 million. We estimate that a hypothetical 10% movement of all applicable foreign currency exchange rates would affect other comprehensive income by approximately \$2.8 million.

### **ITEM 4. Controls and Procedures**

Our chief executive officer and chief financial officer, with the participation of management, have 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 of the end of the period covered by this quarterly report on Form 10-Q. Based on their evaluation, they have concluded that our disclosure controls and procedures (1) are effective in timely alerting them to material information relating to Newpark (including our consolidated subsidiaries) required to be disclosed in our periodic Securities and Exchange Commission filings and (2) are adequate to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934 is recorded, processed and summarized and reported within the time periods specified in the SEC's rules and forms. It should be noted that in designing and evaluating the disclosure controls and procedures our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have designed our disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired objectives and, based on the evaluation described above, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q were effective at reaching that level of reasonable assurance.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission has adopted rules which will require us to issue a report of management on the company's internal control over financial reporting beginning with our annual report on Form 10-K for the period ended December 31, 2004. In preparing for this report and to further evaluate the effectiveness of our disclosure controls and procedures, we engaged third-party consultants during 2003 to perform extensive evaluations of our control environment. As a result of the work performed by these consultants, we have

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identified some areas of weakness in our controls and procedures. These weaknesses include controls and procedures in the following areas:

- Reporting for foreign currency transactions and differences between U.S. and foreign generally accepted accounting principles in our Mediterranean operations; and
- Segregation of duties in several of our reporting units and in our corporate offices.

We will be making control changes during 2004 to reduce these weaknesses. These control changes, among other things, will include implementing new accounting software in our Mediterranean operations to improve management and financial reporting.

There were no significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

### **Forward-Looking Statements**

The foregoing discussion contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words “anticipates”, “believes”, “estimates”, “expects”, “plans”, “intends” and similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying them. These forward-looking statements reflect the current views of our management; however, various risks, uncertainties and contingencies, including the risks identified 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. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

Among the risks and uncertainties that could cause future events and results to differ materially from those anticipated by us in the forward-looking statements included in this 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 could adversely affect the demand for our 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 could adversely affect the demand for our services;
- Changes in domestic and international political, military, regulatory and economic conditions may adversely affect the demand for oil and gas or production volumes;

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- A rescission or relaxation of government regulations affecting E&P and NORM waste disposal could reduce the demand for our services and reduce our revenues and income.
- Changes in existing regulations could require us to change the way we do business, which may have a material adverse affect on our consolidated financial statements;
- 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 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;
- We face intense competition in our existing markets and expect to face tough competition in any markets into which we seek to expand, which 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;
- Our acquisitions may not achieve sales and profitability levels that justify our investment in them, which could result in these businesses placing downward pressure on our margins or our disposing of these businesses at a loss;
- The demand for our services may be adversely affected by shortages of critical supplies or equipment in the oil and gas industry and personnel trained to operate this equipment;
- We may not be able to successfully introduce our products and services, including our DeepDrill™ and FlexDrill™ technology and our new Dura-Base™ and Bravo™ mats, and we may not be successful in gaining acceptance or market share for these products and services;
- We may not be able to maintain the necessary permits to operate our non-hazardous waste disposal wells or we may not be able to successfully compete in this market;
- Adverse weather conditions could disrupt drilling operations and reduce the demand for our services;
- We may fail 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 these regulations and policies may change, and we may face fines or other penalties if we fail to comply with these new regulations, or be forced to make significant capital expenditures or changes to our operations;
- 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 the costs to clean up and close contaminated sites;
- 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 affect on our financial condition;
- Our international operations are subject to uncertainties which could limit our ability to expand or reduce the revenues and profitability of these operations, including difficulties and cost associated with complying with a wide variety of complex foreign laws, treaties and regulations, unexpected changes in regulatory environments, inadequate protection of intellectual

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property in foreign countries, legal uncertainties, timing delays and expenses associated with tariffs, export licenses and other trade barriers, among other risks; and

- Any increases in interest rates under our credit facility, either as a result of increases in the prime or LIBOR rates or as a result of changes in our funded debt to cash flow ratio, would increase our cost of borrowing and have an adverse affect on our consolidated financial statements.
- We may not be able to retire or refinance our long-term debt at or before its maturity, whether due to conditions in financial markets or our own financial condition at that future time. We also can't provide any assurances that we will be able to obtain any replacement long-term financing on terms as favorable to us as under our current financing.

For further information regarding these and other factors, risks and uncertainties affecting us, we refer you to the risk factors set forth in the Prospectus included in our Registration Statement on Form S-3 filed on May 8, 2002 (File No. 333-87840), and to the section entitled "Forward-Looking Statements" on page 17 of that Prospectus.

**PART II**

**ITEM 1. Legal Proceedings.**

In 2002, a Newpark subsidiary filed suit against LOMA asserting it had been overcharged for DuraBase™ composite mats purchased from LOMA. On June 29, 2004, the Louisiana Fifteenth Judicial District Court granted judgment in our favor affirming our interpretation of the pricing of the DuraBase™ composite mats and awarding us \$11.7 million in damages for overcharges through December 31, 2002. The state court judgment further denied LOMA's and OLS Consulting Services, Inc.'s ("OLS") claim to void Newpark's exclusive license to use and sell the composite mats. The judgment has 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. The bankruptcy court has ordered and confirmed the appointment of a trustee to assume control over LOMA's affairs while in Chapter 11. The appointment of a trustee allows us to file our own plan of reorganization, which we intend to do. At this juncture, it is impossible to predict when or if LOMA will be successfully reorganized or the exact details of any plan of reorganization.

In connection with the judgment of the pricing litigation with LOMA in the second quarter of 2004, we recorded a receivable from LOMA, totaling \$10.2 million, net of an allowance of approximately \$6.8 million. This receivable is included in other long-term assets as of September 30, 2004. The recorded value of the receivable is net of any allowances for amounts deemed to be uncollectible from Loma in the future. Net reductions to inventory and property, plant and equipment in the amount of \$3.4 million and \$5.2 million, respectively, were recorded in connection with the recording of this receivable. 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.

Also as previously reported in our Annual Report on Form 10-K for the year ended December 31, 2003, in response to the filing of a lawsuit by Newpark Drilling Fluids, L.L.C., one of our subsidiaries, certain of the individual defendants in the lawsuit filed stockholder derivative claims with respect to alleged misconduct as a cross-complaint to the lawsuit. A settlement of this litigation was reached through mediation on July 15, 2004. While the final settlement documents have not been executed as of the date of this report, we expect to recover our cumulative legal and other costs over the term of the settlement and will avoid related legal costs in future periods. Our cost to date has been \$3.6 million, of which \$2.5 million was related to the original lawsuit and \$1.1 million was related to defense of the stockholder derivative claims. We have received acknowledgement from our insurance carrier that defense costs of the stockholder derivative claims is a covered item, subject to a deductible of \$100,000. We have recorded a receivable in the amount of \$1.0 million as of September 30, 2004 related to the amount recoverable from the insurance carrier. Included in General and Administrative expense for the three month and nine month periods ended September 30, 2004, are defense costs, net of anticipated recovery totaling \$345,000 and \$2.3 million, respectively.

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

Not applicable.

**ITEM 3. Defaults Upon Senior Securities**

Not applicable.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

Not applicable.

**ITEM 6. Exhibits**

- 10.1 Loan agreement dated July 26, 2004 between Excalibar Minerals, Inc. and Excalibar Minerals of LA, L.L.C., as borrowers and RBS Lombard, Inc. as lender.
- 31.1 Certification of James D. Cole 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 Matthew W. Hardey 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.
- 32.1 Certification of James D. Cole 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 Matthew W. Hardey pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**NEWPARK RESOURCES, INC.**

**SIGNATURES**

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

Date: November 5, 2004

NEWPARK RESOURCES, INC.

By: /s/ James D. Cole

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James D. Cole, Chairman and Chief  
Executive Officer

By: /s/ Matthew W. Hardey

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Matthew W. Hardey, Vice President  
and Chief Financial Officer

**EXHIBIT INDEX**

- 10.1 Loan agreement dated July 26, 2004 between Excalibar Minerals, Inc. and Excalibar Minerals of LA, L.L.C., as borrowers and RBS Lombard, Inc. as lender.
- 31.1 Certification of James D. Cole pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Matthew W. Hardey pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of James D. Cole pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Matthew W. Hardey pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



LOAN AGREEMENT

dated as of July 26, 2004

between

EXCALIBAR MINERALS INC. and EXCALIBAR MINERALS OF LA., L.L.C.  
as Borrowers

and

RBS LOMBARD, INC.  
as Lender

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## SCHEDULES

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- SCHEDULE II - Additional Conditions Precedent
- SCHEDULE III - Financial Covenants
- SCHEDULE IV - Disclosure Statements
- SCHEDULE V - List of Subsidiaries

## LOAN AGREEMENT

THIS LOAN AGREEMENT (this "Agreement") dated as of July 26, 2004 between EXCALIBAR MINERALS INC., a Texas corporation ("Excalibar") and EXCALIBAR MINERALS OF LA., L.L.C., a Louisiana limited liability company ("Excalibar LLC" and together with Excalibar and each of their respective successors and assigns, individually and/or collectively, jointly and severally, "Borrower"), and RBS LOMBARD, INC., a New York corporation (together with its successors and assigns, "Lender").

### W I T N E S S E T H:

WHEREAS, Borrower desires to obtain one or more loans from Lender in an aggregate principal amount not to exceed the Maximum Principal Amount (as defined below), secured by the Collateral (as defined below).

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, and in consideration of the premises contained in this Agreement, Lender and Borrower agree as follows:

### ARTICLE I: DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. DEFINED TERMS. The following terms shall have the following meanings for all purposes of this Agreement:

"Affiliate" means any Person that, directly or indirectly, controls, is controlled by or is under common control with any other Person. "Controls," "controlled by" or "under common control with" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person whether by ownership of voting securities, contract or otherwise. Without limitation, any director, executive officer or beneficial owner of 20% or more of the equity of a Person shall for purposes of this Agreement be deemed to control the other Person. In no event shall Lender be deemed an "Affiliate" of Borrower.

"Agreement" means this Loan Agreement, as amended, supplemented, restated or otherwise modified from time to time in accordance with the terms hereof.

"Applicable Interest Swap Fixed Rate" has the meaning ascribed to such term in Schedule I hereto.

"Authorizing Entities" has the meaning ascribed to such term in Schedule I hereto.

"Authorized Officers" of each Borrower and each Corporate Guarantor shall mean John R. Dardenne as Treasurer, Matthew W. Hardey as Vice President and Eric M. Wingerter as Vice President or each of their respective successors thereto.

"Bank One" has the meaning ascribed to such term in Schedule I hereto.

"Bank One Loan Agreement" has the meaning ascribed to such term in Schedule I hereto.

"Base Rate" means, for any day, a rate per annum equal to the prime or base rate of interest announced from time to time by The Royal Bank of Scotland plc (or such other reference bank as Lender may select), which rate of interest may not, in any event, be the lowest rate of interest charged by such bank for extensions of credit. The Base Rate shall change, automatically and without notice, upon each date that such prime or base rate of interest changes.

"Borrower's State" has the meaning ascribed to such term in Schedule I hereto.

"Business Day" means: (a) any day on which Lender is open for business and is neither a Saturday or Sunday nor a legal holiday on which banks are authorized or required to be closed in New York, New York or Chicago, Illinois and (b) with respect to determining LIBOR, which is also a day on which dealings in United States dollars are carried on in the interbank eurodollar market.

"Capital Expenditures" has the meaning ascribed to such term in Schedule I hereto.

"Capitalized Lease" has the meaning ascribed to such term in Schedule I hereto.

"Change of Control" means a change in control of any Borrower, any of their Subsidiaries or any Guarantor, including, without limitation, a change in control resulting from direct or indirect transfers of voting stock or partnership, membership or other ownership interests, whether in one or a series of transactions. "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of any Borrower, any of their Subsidiaries, or any Guarantor, and a Change of Control shall occur if any of the following occurs: (a) any Person or group (as such term is used in Section 13(d)(3) of the Exchange Act) acquires, after the date of this Agreement, the beneficial ownership directly or indirectly, of 50% or more of the voting power of the total outstanding stock or other ownership interests of Borrower or any Guarantor or (b) the occurrence of an Owner Change.

"Closing Date" means with respect to the initial Loan, the Initial Closing Date, and with respect to any Loan funded after the Initial Closing Date, the date that the proceeds of such Loan are disbursed to, or on behalf of, Borrower.

"Closing Fee" has the meaning ascribed to such term in Schedule I hereto.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

"Collateral" means the property described on each Collateral Schedule, which property shall be acceptable to Lender, in its sole discretion, and any other assets of Borrower, any Guarantor or any other Person that are subject to a Lien in favor of Lender pursuant to any Loan Document.

"Collateral Schedule" means each schedule describing Collateral attached to and referencing a Note or Notes, and executed by Borrower and Lender.

"Commitment" means Lender's obligation to make Loans to Borrower pursuant to Section 2.01 in an amount not to exceed the Maximum Principal Amount.

"Commitment Termination Date" means the earliest of (a) the date on which the aggregate Original Principal Amount of all Loans equals the Maximum Principal Amount, (b) the Scheduled Commitment Termination Date, (c) the date that an Event of Default described in subsection (i) of Section 7.01 occurs or (d) the date on which Lender elects to terminate the Commitment following (i) an Event of Default or (ii) the occurrence of a material adverse change in the business, assets or financial condition of Borrower or any Guarantor.

"Consolidated Capital Expenditures" has the meaning ascribed to such term in Schedule I hereto.

"Consolidated EBITDA" has the meaning ascribed to such term in Schedule I hereto.

"Consolidated Fixed Charges" has the meaning ascribed to such term in Schedule I hereto.

"Consolidated Interest Expense" has the meaning ascribed to such term in Schedule I hereto.

"Consolidated Net Income" has the meaning ascribed to such term in Schedule I hereto.

"Consolidated Net Worth" has the meaning ascribed to such term in Schedule I hereto.

"Consolidated Tangible Net Worth" has the meaning ascribed to such term in Schedule I hereto.

"Corporate Guarantor" means any Guarantor that is not an Individual Guarantor.

"Default" means any Event of Default or any condition, occurrence or event that, after notice or lapse of time or both, would constitute an Event of Default.

"Default Rate" has the meaning ascribed to such term in Section 2.05(c).

"Environmental Laws" means (a) all Federal Toxic Waste Laws, (b) all local, state or foreign law, statute, regulation, or ordinance analogous to any of the Federal Toxic Waste Laws and (c) all other federal, state, local, or foreign law (including any common law, consent decrees and administrative orders), statute, regulation, or ordinance regulating, permitting, prohibiting or otherwise restricting the placement, discharge, release, generation, treatment or disposal upon or into any environmental media of



any substance, pollutant, contaminant or waste that is now or hereafter classified or considered to be hazardous or toxic; "Environmental Laws" shall also include any and all amendments to any of (a), (b) or (c).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute of similar import, together with the regulations thereunder, in each case as in effect from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with Borrower or any Guarantor, as applicable, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived by the Pension Benefit Guaranty Corporation), (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived, (c) the filing pursuant to Section 412 (d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan, (d) the incurrence by Borrower, any Guarantor or any of its or their ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan, (e) the receipt by Borrower, any Guarantor or any of its or their ERISA Affiliates from the Pension Benefit Guaranty Corporation or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan, (f) the incurrence by the Borrower, any Guarantor or any of its or their ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan or (g) the receipt by Borrower, any Guarantor or any of its or their ERISA Affiliates of any notice, or the receipt by any Multiemployer Plan from Borrower, any Guarantor or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Event of Default" has the meaning assigned to such term in Section 7.01.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Federal Toxic Waste Law" means any federal law or implementing regulation regulating any substance, matter, material, waste contaminant or pollutant, the generation, storage, disposal, handling, release, treatment, discharge or emission of which is regulated, prohibited or limited, including, without limitation: (i) the Resource Conservation and Recovery Act, as amended by the Hazardous and Solid Waste Amendments of 1984, as now or hereafter amended (42 U.S.C. Section 6901 et seq.), (ii) the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act of 1986, as now or hereafter amended (42 U.S.C. Section 9601 et seq.), (iii) the Clean Water Act, as now or hereafter amended (33 U.S.C. Section 1251 et seq.), (iv) the Toxic Substances and Control Act, as now or hereafter amended (15 U.S.C. Section 2601 et seq.) and (v) the Clean Air Act, as now or hereafter amended (42 U.S.C. Section 7401 et seq.).

"Financial Statements" has the meaning ascribed to such term in Schedule I hereto.

"Fiscal Quarter" has the meaning ascribed to such term in Schedule I hereto.

"Fixed Charge Coverage Ratio" has the meaning ascribed to such term in Schedule I hereto.

"Fixed Rate Conversion" has the meaning ascribed to such term in Section 2.05(e).

"Fixed Rate Conversion Fee" has the meaning ascribed to such term in Schedule I hereto.

"GAAP" means generally accepted accounting principles in the United States.

"Guarantor" means each guarantor of the Obligations.

"Guaranty" means one or more instruments by which a Guarantor guarantees the Obligations, in form and substance acceptable to Lender.

"Indebtedness" means (a) all items of indebtedness or liability which in accordance with GAAP or federal tax law would be included in determining total liabilities as shown on the liabilities side of a balance sheet, (b) indebtedness secured by any



mortgage, pledge, lien or security interest existing on property owned by Borrower, whether or not the indebtedness secured thereby shall have been assumed and (c) guaranties and endorsements (other than for purposes of collection in the ordinary course of business) by Borrower and other contingent obligations of Borrower in respect of, or to purchase or otherwise acquire, indebtedness of others.

"Indenture" has the meaning ascribed to such term in Schedule I hereto.

"Individual Guarantor" means a Guarantor that is a natural person.

"Initial Closing Date" has the meaning ascribed to such term in Schedule I hereto.

"Initial Interest Period" has the meaning ascribed to such term in Schedule I hereto.

"Intangibles" has the meaning ascribed to such term in Schedule I hereto.

"Intellectual Property Rights" has the meaning ascribed to such term in Schedule I hereto.

"Interest Period" has the meaning ascribed to such term in Schedule I hereto.

"LIBOR" means, with respect to any Loan and the Interest Period applicable thereto, a rate of interest equal to: (a) the rate of interest determined by Lender at which deposits in United States dollars are offered for a period equal to the Interest Period based on information presented on the Telerate Page 3750 as of 11:00 A.M. (London time) on the day that is two Business Days prior to the first day of the Interest Period or, if such Telerate Page 3750 is not available for any reason at such time, the rate that appears on the Reuters Screen LIBOR Page on the day that is two Business Days prior to the first day of the Interest Period; provided that if the foregoing sources are unavailable for the relevant Interest Period, such rate shall be the per annum rate of interest determined by Lender as of two Business Days prior to the first day of such Interest Period from any interest rate reporting service of recognized standing that Lender shall select as the effective rate at which deposits in immediately available funds in United States dollars are being offered or quoted to major banks in the London interbank market for deposits for a term comparable to such Interest Period, divided by (b) a number equal to 1.0 minus the aggregate (but without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on the day which is two Business Days prior to the beginning of such Interest Period (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other governmental authority having jurisdiction with respect thereto, as now and from time to time in effect) for Eurocurrency funding (currently referred to as "Eurocurrency liabilities" in Regulation D of such Board) that are required to be maintained by a member bank of the Federal Reserve System, which rate of interest shall be adjusted to the nearest one sixteenth of one percent.

"Lien" means any security interest, mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge against or interest in property to secure payment of a debt or performance of an obligation or other priority or preferential arrangement of any kind or nature whatsoever.

"Loan" means a loan from Lender to Borrower pursuant to this Agreement.

"Loan Documents" means, collectively, this Agreement, each Note, each Loan Request, any Guaranty and each other instrument or document executed or delivered pursuant to or in connection with this Agreement and the other Loan Documents, including, without limitation, any instrument or agreement given to evidence or further secure the Obligations.

"Loan Request" means a Loan Request, duly executed by an Authorized Officer of Borrower, in form and substance acceptable to Lender.

"Margin" has the meaning ascribed to such term on Schedule I hereto.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations, properties or condition (financial or otherwise) of Borrower, any Guarantor or any of their Subsidiaries, (b) the ability of Borrower to perform or pay its Obligations or any material Indebtedness in accordance with the terms thereof, (c) the ability of any Guarantor to perform its, his or her obligations under a Guaranty, (d) Lender's Lien on the Collateral or the priority of such Lien, or (e) the validity or enforceability

of any Loan Document or the rights and remedies available to Lender under any Loan Document.

"Maximum Principal Amount" has the meaning ascribed to such term in Schedule I hereto.

"Multiemployer Plan" means a Plan that is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Newpark" means Newpark Resources, Inc., a Delaware corporation.

"Notes" has the meaning ascribed to such term in Section 2.02.

"Notice Address" has the meaning ascribed to such term in Schedule I hereto.

"Obligations" means, subject to Section 8.10(c), the obligations to make the payment of all indebtedness evidenced by the Notes, together with all extensions, renewals, amendments and modifications thereof and the payment of all other Indebtedness and other sums owed under, and the performance of all obligations and covenants contained in the Loan Documents, in each case whether now existing or hereafter incurred, direct or indirect, absolute or contingent, and due or to become due, together with all fees and expenses (including, without limitation, all attorneys' fees and expenses) incurred by Lender in connection with the collection or enforcement of any of the Obligations.

"Organizational Documents" has the meaning ascribed to such term in Schedule I hereto.

"Original Principal Amount" means the aggregate principal balance of each Loan as of the Closing Date for such Loan.

"Owner Change" has the meaning ascribed to such term in Schedule I hereto.

"Payment Date" has the meaning ascribed to such term in Schedule I hereto.

"Permitted Liens" means any of the following: (a) Liens (other than Liens relating to Environmental Laws) for taxes, assessments or other governmental charges not yet due and payable, (b) statutory Liens of landlords, carriers, warehousemen, mechanics, materialmen and other similar Liens imposed by law, which are incurred in the ordinary course of business for sums that are not delinquent, (c) Liens in favor of Lender, (d) Liens in favor of Bank One, as agent, (e) Liens on movable equipment securing purchase money Indebtedness, provided that, such Liens attach only to the movable equipment which was purchased with the proceeds of such purchase money Indebtedness, and (f) Liens explicitly identified in any Loan Document as "permitted liens."

"Person" means any natural person, corporation, partnership, limited liability company, firm, association, trust, government, governmental agency or any other entity, whether acting in an individual, fiduciary or other capacity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which Borrower, any Guarantor or any of its or their ERISA Affiliates is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Prepayment Fee" means with respect to each Loan, the sum of (a) the prepayment fee described in the related Note, plus (b) in the event that a Fixed Rate Conversion has occurred, the amount of the Yield Maintenance Payment.

"Property" has the meaning ascribed to such term in Schedule I hereto.

"Real Properties" has the meaning ascribed to such term in Schedule I hereto.

"Related Property" has the meaning ascribed to such term in Schedule I hereto.

"Scheduled Commitment Termination Date" has the meaning ascribed to such term in Schedule I hereto.

"Senior Subordinated Notes" has the meaning ascribed to such term in Schedule I hereto.

"Stated Maturity Date" means, with respect to each Loan, the scheduled maturity date described in the related Note.

"Subsidiary" means shall mean, with respect to any Person (the "Parent") at any date, (a) any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the Parent in the Parent's consolidated financial statements if such

financial statements were prepared in accordance with GAAP as of such date, (b) any corporation of which more than 50% of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors or other governing body of such corporation (irrespective of whether at the time capital stock of any other

class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by the Parent, or by one or more Subsidiaries of such Parent or (c) any partnership, joint venture, limited liability company, or other entity as to which the Parent, or one or more Subsidiaries of such Parent, owns more than a 50% ownership, equity or similar interest or has power to direct or cause the direction of management and policies, or the power to elect the managing partner (or the equivalent), of such partnership, joint venture or other entity, as the case may be.

"Test Period" has the meaning ascribed to such term in Schedule I hereto.

"UCC" means the Uniform Commercial Code as from time to time in effect in the State of New York.

"Voluntary Prepayment Date" has the meaning ascribed to such term in Schedule I hereto.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

"Yield Maintenance Payment" has the meaning ascribed to such term in Schedule I hereto.

#### SECTION 1.02. RULES OF CONSTRUCTION.

(a) The singular form of any word used herein, including the terms defined in Section 1.01 hereof, shall include the plural, and vice versa. The use herein of a word of any gender shall include correlative words of all genders.

(b) Unless otherwise specified, references to Articles, Sections and other subdivisions of this Agreement are to the designated Articles, Sections and other subdivision of this Agreement as originally executed. The words "hereof," "herein," "hereunder" and words of similar import refer to this Agreement as a whole.

(c) The headings or titles of the several articles and sections shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

SECTION 1.03. ACCOUNTING AND FINANCIAL DETERMINATIONS. Unless otherwise specified, all accounting terms used herein or in any other Loan Document shall be interpreted, all accounting determinations and computations hereunder or thereunder shall be made, and all financial statements required to be delivered hereunder or thereunder shall be prepared in accordance with GAAP consistently applied. In the event that GAAP changes during the term of this Agreement such that the financial covenants contained herein would then be calculated in a different manner or with different components, Borrower and Lender shall amend such provisions of this Agreement in such respects as necessary to conform the financial covenants as criteria for evaluating the financial condition of Borrower or a Guarantor, as applicable, to substantially the same criteria as were effective prior to such change in GAAP.

### ARTICLE II: THE LOANS

#### SECTION 2.01. LOANS.

(a) COMMITMENT. Lender hereby agrees, subject to the terms and conditions of this Agreement (including, without limitation, the fulfillment of the conditions set forth in Article III or Lender's written waiver thereof), to make one or more Loans to Borrower from time to time during the period from the Initial Closing Date to the Commitment Termination Date in the aggregate Original Principal Amount not to exceed the Maximum Principal Amount (the "Commitment"). With respect to Loans funded after the Initial Closing Date, if any, not more than one such Loan shall be funded in any calendar month, and each such Loan shall be in an Original Principal Amount of at least \$3,000,000. The Original Principal Amount of each Loan shall reduce, dollar for dollar, the remaining available amount under the Commitment, and any amount funded may not be reborrowed after being repaid. The Commitment shall terminate automatically and without any further action on the Commitment Termination Date. Borrower's obligation to repay a Loan shall commence, and interest shall begin to accrue, on the Closing Date of such Loan.

(b) LOAN REQUEST. By delivering a duly completed and executed Loan Request to Lender on a Business Day, Borrower may irrevocably request that

a Loan or Loans (as allowed by the terms hereof) be made on the Closing Date specified in such Loan Request (which date shall be at least two Business Days but no more than 10 Business Days after the date of delivery to Lender of such Loan Request). On such Closing Date, subject to the terms and conditions contained herein (including, without limitation, the fulfillment of the conditions set forth in Article III or Lender's written waiver thereof), Lender shall disburse the Original Principal Amount specified in such Loan Request to, or on behalf of, Borrower to the accounts or entities specified in such Loan Request. Such Loan Request shall specify the applicable

Closing Date, the Original Principal Amount of such Loan and the applicable disbursement instructions. Borrower agrees that the proceeds of all Loans shall be used solely for the purposes described in such Loan Request.

(c) FUNDING. Lender may, if it so elects, fulfill its obligation to make Loans hereunder by causing one of its foreign branches or Affiliates (or an international banking facility created by Lender) to make or maintain such Loan; provided, however, that such Loan shall nonetheless be deemed to have been made and to be held by Lender, and the obligation of Borrower to repay such Loan shall nevertheless be to Lender for the account of such foreign branch, Affiliate or international banking facility. In addition, Borrower hereby consents and agrees that, for purposes of any determination to be made for purposes of Sections 2.08 through 2.11, it shall be conclusively assumed that Lender elected to fund all Loans by purchasing United States dollar deposits.

SECTION 2.02. NOTES Each Loan made by Lender under this Agreement shall be evidenced by, and repaid with interest in accordance with a separate promissory note of Borrower for each such Loan in form and substance acceptable to Lender, duly completed, in the Original Principal Amount of such Loan, dated as of the Closing Date for such Loan, made payable to Lender or order, and maturing on the Stated Maturity Date of such Loan or such earlier date pursuant to an acceleration hereunder (collectively the "Notes").

SECTION 2.03. SCHEDULED PAYMENTS. On each Payment Date, Borrower shall pay the aggregate scheduled principal payments owed with respect to each Loan as set forth in the Notes, all accrued and unpaid interest thereon and any prepayment as provided in Section 2.04; provided, however, on the Stated Maturity Date or date of acceleration of a Loan, Borrower shall repay in full the aggregate then outstanding principal amount of such Loan plus all accrued and unpaid interest thereon and all other amounts owed hereunder or under any other Loan Document related to such Loan.

All amounts required to be paid by Borrower hereunder shall be paid in lawful money of the United States of America in immediately available funds to the following account, or to such other account as designated by Lender to Borrower in writing:

Clearing Bank: JP Morgan Chase NYC  
ABA: 021000021  
Beneficiary: RBS Lombard, Inc.  
Account: 323945724  
Borrower: Excalibar Minerals Inc. and Excalibar Minerals of LA., L.L.C.

Any payment received after 12:00 p.m. New York time will be deemed to be received on the next succeeding Business Day. Whenever any payment to be made hereunder shall be stated to be due on a day which is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or the fees hereunder, as the case may be. All payments shall be applied first to accrued interest and then to principal.

#### SECTION 2.04. PREPAYMENTS.

(a) VOLUNTARY PREPAYMENTS. Prior to the Stated Maturity Date, so long as an Event of Default has not occurred and is continuing, Borrower may, from time to time on any Business Day occurring after the Voluntary Prepayment Date, (i) make a voluntary prepayment, in whole, of the outstanding principal amount of any Loan solely in connection with the sale of the Related Property described in the Note evidencing such Loan or (ii) make a voluntary prepayment, in whole, of the outstanding principal amount of all of the Loans provided, however, that in connection with the voluntary prepayment of such Loan or Loans described in clauses (i) and (ii) above, (A) the principal amount outstanding under the related Note or Notes shall be paid in full; (B) notice of such voluntary prepayment shall be made by Borrower on or before the date that is 45 calendar days in advance of any prepayment of such Loan or Loans; (C) Borrower shall pay (x) all accrued interest on the outstanding principal amount of the Loan or Loans being prepaid, (y) all other amounts owed under any Loan Document to the extent related to such Loan or Loans being prepaid, as determined by Lender and (z) except as otherwise provided in any Loan Document, the aggregate Prepayment Fee for the Loan or Loans being prepaid, which shall not be refundable; and (D) with respect to prepayment pursuant to clause (i) above only, Borrower shall also provide evidence of the consummation and terms of the sale of the Related Property with respect to such Loan.

(b) MANDATORY PREPAYMENT UPON ACCELERATION. Upon any acceleration of

any Loan pursuant to Section 7.02, Borrower shall immediately repay all (or if only a portion is accelerated thereunder, such portion of) the Loans then outstanding, including accrued and unpaid interest thereon, plus the aggregate Prepayment Fee for all such Loans and all other amounts owed under the Loan Documents.



## SECTION 2.05. INTEREST PROVISIONS.

(a) Subject to Section 2.05(e), interest on the outstanding principal amount of each Loan shall accrue during each Interest Period at a rate per annum equal to LIBOR for such Interest Period plus the Margin. Interest shall be computed on the basis of a 360-day year and the actual number of days elapsed. Interest accruing on each Loan with respect to the Initial Interest Period for such Loan shall be payable on the initial Payment Date following the Closing Date. Interest accruing on each Loan after the Initial Interest Period for such Loan shall be payable on each Payment Date thereafter or the date of prepayment, as applicable.

(b) Any payment under a Loan Document that is not paid by Borrower on the due date thereof shall, to the extent permissible by law, bear a late charge equal to the lesser of three cents (\$.03) per dollar of the delinquent amount or the lawful maximum, and Borrower shall be obligated to pay the same immediately upon receipt of Lender's written invoice therefor.

(c) Upon the occurrence and during the continuation of any Event of Default or after acceleration, Borrower shall pay interest (i) with respect to all Loans at a rate per annum equal to the rate otherwise in effect plus an additional 3% per annum and (ii) with respect to all other Obligations of Borrower to Lender at a rate per annum equal to the highest LIBOR then in effect plus the sum of the Margin and 3% per annum (each such rate a "Default Rate").

(d) The obligations of Borrower hereunder and under the Notes and the other Loan Documents shall be subject to the limitation that payments of interest to Lender, plus any other amounts paid to Lender in connection herewith and therewith, shall not be required to the extent (but only to the extent) that contracting for and receiving such payment by Lender would be contrary to the provisions of any law applicable to Lender limiting the highest rate of interest which may be contracted for, charged or received by Lender, and in such event Borrower shall pay such Lender interest and other amounts at the highest rate permitted by applicable law.

(e) Provided that no Event of Default has occurred and is continuing, on a single occasion with respect to each Loan following the first anniversary of the Initial Closing Date, Borrower may elect, by providing 45 calendar days prior notice to Lender, to convert the interest rate applicable to each such Loan for the entire remaining term thereof from the interest rate set forth in Section 2.05(a) to a fixed rate per annum equal to the sum of (a) the Applicable Interest Swap Fixed Rate, plus (b) the Margin (the "Fixed Rate Conversion"). The conversion described in this Section 2.05(e) shall not be effective unless and until Borrower shall have paid the Fixed Rate Conversion Fee.

## SECTION 2.06. PAYMENTS ABSOLUTE; JOINT AND SEVERAL LIABILITY.

(a) The obligations of Borrower to pay interest and principal required under this Article II and to make other payments under the Loan Documents and to perform and observe the covenants and agreements contained herein and therein shall be joint and several, and absolute and unconditional in all events, without abatement, diminution, deduction, setoff or defense for any reason, including, without limitation, any failure of the Collateral to be delivered, installed or constructed, as applicable, any defects, malfunctions, breakdowns or infirmities in the Collateral or any accident, condemnation, destruction or unforeseen circumstances. Notwithstanding any dispute between Borrower and Lender or any other person, Borrower shall make all payments under the Loan Documents when due and shall not withhold any payments pending final resolution of such dispute, nor shall Borrower assert any right of set-off or counterclaim against its obligation to make such payments required under the Loan Documents.

(b) Each Borrower hereby irrevocably and unconditionally: (i) acknowledges and agrees that it is jointly and severally liable to Lender for the full and prompt payment of the Obligations and the performance by each Borrower of the obligations under this Agreement and the other Loan Documents in accordance with the terms hereof and thereof; (ii) agrees that all of the representations, warranties, covenants, obligations, conditions, agreements and other terms contained in the Loan Documents shall be applicable to and shall be binding upon each Borrower; (iii) agrees as a primary obligation to indemnify Lender on demand for and against any loss incurred by Lender as a result of any of the Obligations of any Borrower being or becoming void, voidable, unenforceable or

ineffective for any reason whatsoever, whether or not known to Lender or any Person, the amount of such loss being the amount which Lender would otherwise have been entitled to recover from any Borrower.

SECTION 2.07. SUSPENSION OF LIBOR.

(a) ILLEGALITY. If Lender shall determine (which determination shall, upon notice thereof to Borrower, be conclusive and binding on Borrower) that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for Lender to perform its obligations hereunder to make, fund or maintain any Loan as a LIBOR based obligation, then, on notice thereof and demand therefor by Lender to Borrower, the interest rate applicable to all outstanding Loans shall

automatically convert into the Base Rate plus the Margin until such time as Lender shall notify Borrower that Lender has determined that the circumstances causing such suspension no longer exist.

(b) INABILITY TO DETERMINE RATES. If Lender shall determine (which determination shall, upon notice thereof to Borrower, be conclusive and binding on Borrower) that (i) LIBOR cannot be determined in accordance with the definition thereof or (ii) LIBOR for any Interest Period will not adequately reflect the costs to Lender of making, funding or maintaining any Loans for such Interest Period, Lender shall notify Borrower, whereupon the interest rate applicable to the Loans shall thereafter be the Base Rate plus the Margin.

SECTION 2.08. INCREASED COSTS. Borrower agrees to reimburse Lender for any increase in the cost to Lender of, or any reduction in the amount of any sum receivable by Lender in respect of, making, continuing or maintaining (or of its obligation to make, continue or maintain) any Loans based upon LIBOR (including, without limitation, any imposition or effectiveness of reserve requirements but excluding any costs resulting from reserve requirements taken into account in the definition of LIBOR) that arise in connection with any change in, or the introduction, adoption, effectiveness, interpretation, reinterpretation or phase-in of, any law or regulation, directive, guideline, decision or request (whether or not having the force of law) of any court, central bank, regulator or other governmental authority. Lender shall promptly notify Borrower in writing of the occurrence of any such event, such notice to state, in reasonable detail, the reasons therefor and the additional amount required fully to compensate Lender for such increased cost or reduced amount. Borrower shall pay such additional amounts directly to Lender promptly (and, in any event, within three Business Days of receipt of such notice), and such notice shall, in the absence of manifest error, be conclusive and binding on Borrower.

SECTION 2.09. FUNDING LOSSES. In the event of (a) the payment or prepayment of any principal of a Loan other than on the last day of the Interest Period applicable thereto (including as a result of an Event of Default), or (b) the failure by Borrower to borrow or prepay a Loan on the date specified in any applicable notice (regardless of whether such notice is withdrawn or revoked), then, in any such event, Borrower shall compensate Lender within three Business Days after written demand from Lender for any loss, cost or expense attributable to such event. Such demand notice shall, in absence of manifest error, be conclusive and binding on Borrower.

SECTION 2.10. INCREASED CAPITAL COSTS. If any change in, or the introduction, adoption, effectiveness, interpretation, reinterpretation or phase-in of, any law or regulation, directive, guideline, decision or request (whether or not having the force of law) of any court, central bank, regulator or other governmental authority affects or would affect the amount of capital required or expected to be maintained by Lender or any Person controlling Lender, and Lender determines that the rate of return on its or such controlling Person's capital as a consequence of its Commitment or the Loans made by Lender is reduced to a level below that which Lender or such controlling Person could have achieved but for the occurrence of any such circumstance, then, in any such case upon notice from time to time by Lender to Borrower, Borrower shall immediately pay directly to Lender additional amounts sufficient to compensate Lender or such controlling Person for such reduction in rate of return. A statement of Lender as to any such additional amount or amounts (including calculations thereof in reasonable detail) shall, in the absence of manifest error, be conclusive and binding on Borrower. In determining such amount, Lender may use any method of averaging and attribution that it shall deem applicable.

#### SECTION 2.11. TAXES.

(a) WITHHOLDING TAXES. Any and all payments by Borrower of principal of, and interest on, the Loans and all other amounts payable hereunder and under the Loan Documents shall be made free and clear of and without deduction for any present or future taxes, levies, imposts, deductions, fees, duties, withholdings or other charges of any nature whatsoever imposed by any taxing authority, but excluding franchise taxes and taxes imposed on or measured by Lender's gross or net income or receipts by the jurisdiction under the laws of which Lender is organized or any political subdivision thereof or in which Lender is maintaining a lending office (such non-excluded items are referred to herein as "Taxes"). In the event that any withholding or deduction from any payment to be made by Borrower hereunder is required in respect of any Taxes pursuant to any applicable law, rule or regulation, then Borrower will (i) pay directly to the relevant authority the full amount required to be so withheld or deducted; (ii) promptly forward to Lender an official receipt or other documentation satisfactory to Lender evidencing such payment to such authority; and (iii) pay to Lender such additional amount or amounts as is necessary to

ensure that the net amount actually received by Lender will equal the full amount Lender would have received had no such withholding or deduction been required (including penalties, interest, additional taxes and expenses (including reasonable attorney's fees and expenses) arising therefrom or with respect thereto).

(b) OTHER TAXES. In addition, Borrower shall pay any present or future stamp, documentary, excise, property or similar taxes, charges or levies that arise from any payment made hereunder or under the Notes or from the

execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (collectively, "Other Taxes").

(c) TAX INDEMNITY. Borrower shall indemnify Lender for the full amount of Taxes and Other Taxes (including, without limitation, any amounts paid by Lender) and any liability (including, without limitation, penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date Lender makes written demand therefor and shall survive the termination of this Agreement.

SECTION 2.12. OBLIGATIONS. All Loans to Borrower and all of the Obligations of Borrower arising under this Agreement and the other Loan Documents shall constitute one general obligation of Borrower secured by all of the Collateral.

### ARTICLE III: CONDITIONS TO LOANS

Lender's agreement to make the Loans to Borrower hereunder and to disburse the proceeds thereof shall be subject to the condition precedent that Lender shall have received, on or prior to the applicable Closing Date (or by such other time as may be specified herein with respect thereto), all of the following, each in form and substance satisfactory to Lender:

(a) This Agreement and all other Loan Documents, properly executed on behalf of Borrower, and each of the exhibits and schedules hereto and thereto properly completed.

(b) The respective Notes, properly executed on behalf of Borrower.

(c) A Loan Request for each Loan to be funded, duly completed and properly executed on behalf of Borrower.

(d) A certificate of the Secretary or an Assistant Secretary of each Borrower, certifying as to (i) the resolutions of the Authorizing Entities of Borrower, authorizing the execution, delivery and performance of this Agreement, the Notes, the other Loan Documents and any related documents, (ii) the Organizational Documents of Borrower, and (iii) the signatures of the officers or agents of Borrower authorized to execute and deliver this Agreement, the Notes, the other Loan Documents and other instruments, agreements and certificates on behalf of Borrower.

(e) Current certified copies of the Organizational Documents of each Borrower.

(f) A Certificate of Good Standing issued as to each Borrower by the Secretary of the State of the state of such Borrower's organization not more than 30 days prior to the Closing Date.

(g) A Certificate of Qualification issued as to each Borrower by the Secretary of the State of the state where the Collateral is or will be located not more than 30 days prior to the Closing Date.

(h) The Guaranties, if any, properly executed by or on behalf of Guarantors.

(i) A certificate of the Secretary or an Assistant Secretary of any Corporate Guarantor certifying as to (i) the resolutions of the Authorizing Entities of such Guarantor, authorizing the execution, delivery and performance of the Guaranty and any related documents, (ii) the Organizational Documents of Guarantor, and (iii) the signatures of the officers or agents of Guarantor authorized to execute and deliver the Guaranty and other instruments, agreements and certificates on behalf of Guarantor.

(j) Current certified copies of the Organizational Documents of any Corporate Guarantor.

(k) A Certificate of Good Standing issued as to all Corporate Guarantors by the Secretary of the State of the state of such Guarantor's organization not more than 30 days prior to the Closing Date.

(l) Opinion of counsel to Borrower and such opinions of local counsel to Borrower, as required by Lender.

(m) Opinion of counsel to Guarantors, as applicable.

(n) Certificates of the insurance required hereunder, containing a

lender's loss payable clause or endorsement in favor of Lender.

(o) A true and correct copy of any and all leases pursuant to which any Borrower is leasing any property where the Collateral will be located, together with a landlord's disclaimer and consent with respect to each such lease.

(p) A true and correct copy of any and all mortgages, deeds of trust or similar agreements (whether or not Borrower is a party to any such agreement) relating to the Collateral or any property where the Collateral will be located, together with a mortgagee's waiver or estoppel certificate, as applicable, with respect to each such mortgage, deed of trust or similar agreement.

(q) The original certificate of title or manufacturer's certificate of origin and title application if any of the Collateral is subject to certificate of title laws.

(r) Current searches of appropriate filing offices showing that (i) no state or federal tax liens have been filed and remain in effect against Borrower, and (ii) no financing statements have been filed and remain in effect against Borrower relating to the Collateral except those financing statements filed by Lender.

(s) Payment of the Closing Fee and, if any, all of Lender's other fees, commissions and expenses in connection with the funding of each Loan.

(t) Evidence that no Default or event or circumstance that could reasonably be likely to have a Material Adverse Effect has occurred.

(u) An Access Agreement, duly executed by Bank One, N.A., in its capacity as agent for certain lenders, addressing the rights of Lender and Bank One, as agent in the assets of Borrower.

(v) Any other documents or items required by Lender.

(w) Any other documents or items listed on Schedule II hereto.

#### ARTICLE IV: REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER

Each Borrower represents, warrants and covenants for the benefit of Lender, as follows:

(a) Borrower is a corporation or limited liability company, as applicable, duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. Borrower is in good standing and is duly licensed or qualified to transact business in each jurisdiction where the nature of its business requires such qualification, except for those jurisdictions in which the failure to qualify could not reasonably be expected to have a Material Adverse Effect. Borrower's exact legal name is as set forth on the execution page hereof.

(b) Borrower has full power and authority and holds all requisite governmental licenses, permits and other approvals to (i) enter into and perform its obligations under this Agreement, the Notes and each other Loan Document to which it is a party and to own its property, (ii) use the Collateral and (iii) conduct its business substantially as currently conducted by it, except as to clause (iii) where the failure to hold such licenses, permits and approvals could not reasonably be expected to have a Material Adverse Effect.

(c) This Agreement, the Notes and the other Loan Documents to which it is a party have been duly authorized, executed and delivered by Borrower and constitute legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, except to the extent limited by bankruptcy, reorganization or other laws of general application relating to or effecting the enforcement of creditors' rights.

(d) The execution and delivery of this Agreement, the Notes and the other Loan Documents, the consummation of the transactions contemplated hereby and thereby (subject to satisfaction of the conditions described in Article III hereof) and the fulfillment of the terms and conditions hereof and thereof do not and will not violate any law, rule, regulation or order, conflict with or result in a breach of any of the terms or conditions of any Organizational Document of Borrower or of any corporate or limited liability company, as applicable, restriction or of any agreement or instrument to which Borrower is now a party and do not and will not constitute a default under any of the foregoing or result in the creation or imposition of any liens, charges or encumbrances of any nature upon any of the property or assets of Borrower other than Liens in favor of Lender.

(e) The authorization, execution, delivery and performance of this Agreement, the Notes and the other Loan Documents by Borrower do not require submission to, approval of, or other action by any governmental authority or agency, except for such action that has been duly obtained or taken and is in full force and effect.

(f) Each of the Loan Documents that purports to create a security interest creates a valid first priority Lien on the Collateral subject

only to Permitted Liens, securing the payment and performance of the Obligations.

(g) Except as disclosed on Schedule IV, there is no action, suit, proceeding, claim, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best of Borrower's knowledge, threatened against or affecting Borrower, any Guarantor or any of their Subsidiaries challenging Borrower's or any Guarantor's authority to enter into this Agreement, the Notes or any of the other Loan Documents or any other action wherein an unfavorable ruling or finding would adversely affect the enforceability of this Agreement, the Notes or any of the other Loan Documents, or could reasonably be expected to have a Material Adverse Effect.



(h) Borrower has good, marketable and insurable title in fee simple to all Collateral that is real property, and good title to all other Collateral, in each case free and clear of all Liens except for Permitted Liens. With respect to Collateral that is personal property, Borrower owns/leases the real property where the Collateral will be located, subject to no Liens of any kind except for Permitted Liens, and has provided a complete and accurate legal description and the exact name of the fee simple owner of record of such real property, and no person other than Borrower is in occupancy or possession of any portion of such real property.

(i) Borrower is in compliance with all laws, rules, regulations and orders of governmental authorities applicable to it and its properties except to the extent the non-compliance with which could not reasonably be expected to have a Material Adverse Effect.

(j) Borrower has heretofore furnished to Lender the Financial Statements and those statements fairly present the financial condition of Borrower and such Guarantor, if any, on the dates thereof and the results of its operations and cash flows for the periods then ended and were prepared in accordance with GAAP. Since the date of the most recent financial statements, there has been no material adverse change in the business, properties or condition (financial or otherwise) of Borrower or any Guarantor. Except as disclosed in the Financial Statements or the notes thereto and for the items disclosed on Schedule IV, neither Borrower nor any Guarantor, as of each Closing Date, has or will have any liabilities, contingent or otherwise, that could reasonably be expected to have a Material Adverse Effect.

(k) Borrower has paid or caused to be paid, and will pay, to the proper authorities when due all federal, state and local taxes required to be withheld by it. Borrower has filed, and will pay, all federal, state and local tax returns which are required to be filed, and Borrower has paid or caused to be paid to the respective taxing authorities all taxes as shown on said returns or on any assessment received by it to the extent such taxes have become due, except any such taxes or charges which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP have been set aside on its books.

(l) For purposes of Section 9-307 of the UCC, Borrower is and will remain located in the Borrower's State. Borrower has authorized Lender to file financing statements that are sufficient when filed to perfect the security interests created pursuant to this Agreement and the other Loan Documents. When such financing statements are filed in the offices noted therein, Lender will have a valid and perfected security interest in the Collateral that constitutes personal property, subject to no other Lien other than Permitted Liens.

(m) None of the Collateral constitutes a replacement of, substitution for or accessory to any property of Borrower subject to a lien of any kind except Permitted Liens.

(n) No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than 10% of the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$100,000 the fair market value of the assets of all such underfunded Plans.

(o) Borrower has obtained all permits, licenses and other authorizations which are required under all Environmental Laws at Borrower's facilities or in connection with the operation of its business. Except as disclosed on Schedule IV, Borrower and all activities of Borrower at its facilities comply with all Environmental Laws and with all terms and conditions of any required permits, licenses and authorizations applicable to Borrower with respect thereto. Except as disclosed on Schedule IV, Borrower is also in compliance with all limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in Environmental Laws or

contained in any plan, order, decree, judgment or notice of which Borrower is aware. Except as disclosed on Schedule IV, Borrower is not aware of, nor has Borrower received notice of, any events, conditions, circumstances, activities, practices, incidents, actions or plans which may interfere with or prevent continued compliance with, or which may give rise to any liability under, any Environmental Laws.

(p) All factual information heretofor or contemporaneously furnished by or on behalf of Borrower or any Guarantor in writing to Lender for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all other such factual information hereafter furnished by or on behalf of Borrower or any Guarantor to Lender will be, true and correct in every material respect on the date as of which such information is dated or certified, and such information is not, or shall not be, as the case may be, incomplete by omitting to state any material fact necessary to make such information not misleading.

(q) None of Borrower, any Guarantor or any of their Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying "margin stock." None of the proceeds of any Loan will be used for the purpose of, or be made available by Borrower, any Guarantor or any of their Subsidiaries in any manner to any other Person to enable or assist such Person in, directly or indirectly purchasing or carrying "margin stock". Terms for which meanings are provided in F.R.S. Board Regulation T, U or X or any regulations substituted therefor, as from time to time in effect, are used in this Section with such meanings.

(r) None of Borrower, any Guarantor or any of their Subsidiaries is an "investment company" nor a "company controlled by an investment company" within the meaning of the Investment Company Act of 1940, as amended, or a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(s) Schedule V is an accurate and complete list of all Subsidiaries of Borrower and each Corporate Guarantor and the respective ownership interests therein.

(t) Borrower and each Guarantor are solvent and will not be rendered insolvent by the Loan Documents or the transactions contemplated thereby and, after giving effect to such transactions, neither Borrower nor any Guarantor will be left with an unreasonably small amount of capital with which to engage in its business, nor does Borrower or any Guarantor intend to incur, or believe that it has incurred, debts beyond its ability to pay as they mature. Neither Borrower nor any Guarantor contemplates the commencement of insolvency, bankruptcy, liquidation or consolidation proceedings or the appointment of a receiver, liquidator, conservator, trustee or similar official in respect of Borrower or any Guarantor or any of their assets. Neither Borrower nor any Guarantor are entering into the transactions contemplated by the Loan Documents with any intent to hinder, delay or defraud any of Borrower's or any Guarantor's creditors.

(u) The Obligations constitute senior indebtedness which is entitled to the benefits of the subordination provisions of all outstanding Subordinated Indebtedness. In addition, (a) no Event of Default or Default (each as defined in the Indenture) exists, nor will any such Event of Default or default exist immediately after granting or continuation of any Loan, under the Indenture, the Senior Subordinated Notes or any agreement executed by any Borrower in connection therewith; (b) no Borrower or Guarantor nor any of their subsidiaries has incurred any Indebtedness (as defined in the Indenture) in violation of Section 1008 of the Indenture; and (c) all of the Obligations constitute Indebtedness permitted by the terms of Section 1008 of the Indenture.

#### ARTICLE V: SECURITY INTEREST

This Agreement is intended to constitute a security agreement within the meaning of the UCC. To secure the payment and performance of the Obligations, Borrower hereby grants to Lender a security interest constituting a first Lien on the Collateral subject to Permitted Liens. Borrower hereby authorizes, and ratifies any previous authorization for, Lender to file UCC financing statements and any amendments thereto describing the Collateral and containing any other information required by the applicable UCC. Borrower authorizes Lender, and hereby grants Lender a power of attorney (which is coupled with an interest), to file financing statements and amendments thereto describing the Collateral and containing any other information required by the applicable UCC and all proper terminations of the filings of other secured parties with respect to the Collateral, in such form and substance as Lender, in its sole discretion, may determine. Borrower hereby waives any right that Borrower may have to file with the applicable filing officer, and agrees that it will not file or authorize the filing of, any financing statement, amendment, termination or other record pertaining to the Collateral and/or Lender's interest therein, except as authorized by Lender in writing.

#### ARTICLE VI: COVENANTS

SECTION 6.01. AFFIRMATIVE COVENANTS. So long as any Loan shall remain unpaid, each Borrower will comply, and shall cause each Guarantor to comply, with the following requirements unless waived by Lender in writing:

(a) FINANCIAL STATEMENTS. Borrower shall deliver to Lender for Newpark and its subsidiaries, including each Borrower and each Corporate Guarantor: (i) on the date of the filing of Form 10-Q with the Securities

and Exchange Commission of the United States but in any event within 45 days after the end of each fiscal quarter (other than the last fiscal quarter), unaudited financial statements including in each instance, balance sheets, income statements, and statements of cash flow, on a consolidated and consolidating basis, as appropriate, and separate profit and loss statements as of and for the quarterly period then ended and for the fiscal year to date, prepared in accordance with GAAP, and certified by an Authorized Officer of Newpark and Borrower, to be true and correct, (ii) on the date of the filing of Form 10-K with the Securities and Exchange Commission of the United States but in any event within 90 days after the end of each fiscal year, annual audited financial statements, including balance sheets, income statements and statements of cash flow for the fiscal year then ended, on a consolidated and consolidating basis, as appropriate, which have been prepared by the independent accountants of each of Newpark, Borrower and such Corporate Guarantors, in accordance with

GAAP, and (iii) as soon as practicable, any certifications required by the Securities and Exchange Commission of the United States or by securities laws applicable to Borrower and each Corporate Guarantor concerning financial statements of Borrower or the Corporate Guarantor, as applicable. Such audited financial statements shall be accompanied by the independent accountant's opinion, which opinion shall be in form generally recognized as "unqualified." Borrower shall cause each Individual Guarantor to deliver such financial information as Lender shall require from time to time.

(b) COMPLIANCE CERTIFICATE. If any financial covenants are set forth on Schedule III, concurrently with the delivery of the financial statements pursuant to subsection (a), Borrower shall deliver to Lender a certificate from Borrower's or Corporate Guarantor's Authorized Officer, as applicable, containing information (in reasonable detail and with appropriate calculations and computations in all respects reasonably satisfactory to Lender) that demonstrates compliance with the financial covenants set forth on Schedule III.

(c) NOTICES. Borrower shall deliver to Lender each of the following:

(i) as soon as possible and in any event within three Business Days after the occurrence of a Default, an Event of Default or an event which could reasonably be expected to result in a Material Adverse Effect, a statement of Borrower setting forth reasonably detailed information regarding such Default, Event of Default or event and the action that Borrower has taken and proposes to take with respect thereto;

(ii) promptly after the commencement thereof, notice in writing of all litigation and of all proceedings before any governmental or regulatory agency affecting Borrower, any Guarantor or any of their Subsidiaries of the type described in Article IV hereof or which seek a monetary recovery against Borrower, any Guarantor or any of their Subsidiaries in excess of \$3,000,000;

(iii) promptly upon knowledge thereof, notice of any loss, theft or destruction of or material damage to, any accident involving any, and any action, suit or proceeding relating to, Collateral having a value in excess of \$250,000;

(iv) promptly after the amending thereof, copies of any and all amendments to any of its Organizational Documents;

(v) promptly upon knowledge thereof, notice of the violation by Borrower of any law, rule or regulation applicable to Borrower, which violation could reasonably be expected to have a Material Adverse Effect;

(vi) as soon as possible and in any event within three Business Days after the occurrence thereof, notice of any event that, alone or together with any other events that have occurred, could reasonably be expected to result in liability of Borrower or any Corporate Guarantor or any of their Subsidiaries under ERISA in an aggregate amount exceeding \$3,000,000; and

(vii) promptly thereafter, copies of any notices delivered to or by Bank One relating to any "Default" or "Unmatured Default" (as defined in the Bank One Loan Agreement).

(d) COMPLIANCE WITH LAWS. Borrower and each of its Subsidiaries shall comply in all material respects with all governmental rules and regulations and all other applicable laws, rules, regulations and orders, including, without limitation, all Environmental Laws.

(e) MAINTENANCE OF PROPERTIES. Borrower shall, at its own expense, maintain, preserve, protect and keep the Collateral in good repair, working order and condition in compliance with all applicable laws, rules, regulations and the requirements of all applicable insurance policies, and make necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times and shall maintain in full force and effect all rights, franchises, permits, licenses, trademarks, trade names, approvals, authorizations, leases and contracts necessary to carry on its business as presently or proposed to be conducted where the failure to so maintain the same could reasonably be expected to have a Material Adverse Effect. Borrower will not make any material alterations, modifications or additions to the Collateral which cannot be removed without materially

damaging the functional capabilities or economic value of the Collateral unless Lender has provided its prior written consent.

(f) INSURANCE. Borrower shall, at its own expense, procure and maintain continuously in effect: (i) public liability insurance for personal injuries, death or damage to or loss of property arising out of or in any way relating to the Collateral sufficient to protect Lender from liability in all events, and (ii) insurance against such hazards as Lender may require, including, without limitation, all-risk property and casualty insurance, in each case in amounts acceptable to Lender. All insurance policies required by this Section shall be taken out and maintained with insurance companies acceptable to Lender; and shall contain a provision that the insurer shall not cancel or revise coverage thereunder without giving written notice to the insured parties at least 30 days before the cancellation or revision becomes effective. No

insurance shall be subject to any co-insurance clause. Borrower shall cause Lender to be named as loss payee on all insurance policies relating to any Collateral and shall cause Lender to be named as additional insured under all liability policies, in each case pursuant to appropriate endorsements in form and substance satisfactory to Lender. Such insurance shall not be affected by any unintentional act or negligence or representation or warranty on the part of Borrower or other owner of the policy or the property described in such policy. Prior to each Closing Date, Borrower shall deposit with Lender evidence satisfactory to Lender of such insurance and, at least 10 days prior to the expiration thereof, shall provide Lender evidence of all renewals or replacements thereof. Borrower shall provide or cause to be provided to Lender and to its insurance consultant (or any agent, officer or employee of Lender) such other information relating to its insurance coverage as may be reasonably requested by Lender.

(g) BOOKS AND RECORDS; INSPECTIONS. Borrower will keep books and records that accurately reflect all of its business affairs and transactions. Borrower will, and will cause each Guarantor to, permit Lender or any of its representatives (including outside auditors), at reasonable times and intervals, to visit all of its offices, to discuss its financial matters with its officers and independent public accountant (and Borrower hereby authorizes such independent accountant to discuss Borrower's financial matters with Lender or its representatives whether or not any representative of Borrower is present) and to examine (and, at the expense of Borrower, copy extracts from) books or other corporate records (including computer records). If Lender exercises its rights under this Section following the occurrence of a Default, Borrower shall pay any fees of such independent accountant incurred in connection therewith.

(h) PERFECTION OF LIENS. Borrower shall take such action as may be necessary or as Lender may request in order to perfect and protect Lender's Lien on the Collateral. If requested by Lender, Borrower shall obtain a landlord and/or mortgagee's consent and waiver with respect to the property where the Collateral is located. If requested by Lender, Borrower shall conspicuously mark the Collateral with appropriate lettering, labels or tags, and maintain such markings, so as clearly to disclose Lender's security interest in the Collateral.

(i) TITLE. Borrower will at all times protect and defend, at its own cost and expense, its title from and against all claims, liens and legal processes of creditors of Borrower (other than Lender), and keep all Collateral free and clear of all such claims, liens and processes other than Permitted Liens.

(j) USE OF PROCEEDS. Borrower will use the proceeds of the Loans to repay a portion of that certain Indebtedness of Borrower as specified in the Loan Request.

(k) FINANCIAL COVENANTS. Borrower agrees to comply with, and to cause each Guarantor to comply with, the financial covenants set forth on Schedule III, if any.

(l) POST CLOSING CONDITIONS. Notwithstanding the obligations and conditions required by Borrower pursuant to this Agreement, including such conditions set forth in Article I of Schedule II hereto, Borrower and Lender agree that Borrower may comply with the requirements under subsections (a), (b), (c), (f), (g), (h), (i), (j) and (l) of Article I of Schedule II with respect to the Real Property located in Corpus Christi, Texas, by complying with such requirements within thirty (30) days after the Closing Date of the Loan related thereto (the "Post Closing Conditions"). In the event that Borrower fails to satisfy any of the Post Closing Conditions within the time period set forth in this subsection (l) of Section 6.01, such failure shall not be an "Event of Default" hereunder; provided however, that Lender may, at its option, demand immediate repayment of such Loan, and upon written notice thereof from Lender, Borrower shall immediately repay the outstanding principal amount of such Loan, together with all accrued and unpaid interest thereon, plus the Prepayment Fee related thereto and any other amounts owed under the Loan Documents with respect to such Loan; provided further, however, that the failure of Borrower to satisfy the repayment of such Loan pursuant to this subsection (l) of Section 6.01, together with all such amounts owed thereunder as further described above, shall constitute an "Event of Default" hereunder.

SECTION 6.02. NEGATIVE COVENANTS. So long as the Loan shall remain unpaid, Borrower agrees that unless waived by Lender in writing:

(a) LIENS. Borrower will not create, incur or suffer to exist any mortgage, deed of trust, pledge, Lien, security interest, assignment or transfer in, on or of any of the Collateral except for Permitted Liens.

(b) FUNDAMENTAL CHANGES. Borrower will not, and will not permit any of its Subsidiaries to, form or acquire any Subsidiary, enter into any merger, consolidation, reorganization, or recapitalization, or reclassify its capital stock, or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), or, other than in the ordinary course of its business, convey, sell assign, lease, transfer, or otherwise dispose of, in one transaction or series of transactions, all or any substantial part of its property or assets.

(c) SALE OF COLLATERAL. Borrower will not, and will not permit any of its Subsidiaries to, sell, transfer, lease, contribute or otherwise convey or dispose of (in each case in one transaction or series of transactions), or grant options,



warrants or other rights with respect to (in each case in one transaction or series of related transactions), or agree to do any of the foregoing with respect to, all or any part of the Collateral.

(d) LOCATION OR NAME CHANGES. Borrower will not change its location for purposes of Section 9-307 of the UCC or its name in any manner that could make any financing statement filed in connection with any Loan Document seriously misleading within the meaning of Section 9-506 of the UCC or any similar statute, unless it shall have given Lender at least 30 days' prior written notice thereof.

#### SECTION 6.03. INDEMNITY.

(a) Whether or not covered by insurance, each Borrower hereby assumes responsibility for and agrees to reimburse Lender, its affiliates and its and their respective officers, directors, employees and agents (individually and collectively, the "Indemnified Parties") for and will indemnify, defend and hold the Indemnified Parties harmless from and against all liabilities, obligations, losses, damages, penalties, claims, suits, actions, proceedings, judgments, awards, amounts paid in settlements, obligations, debts, diminutions in value, fines, penalties, charges, fees, costs and expenses (including reasonable attorneys' fees and expenses) of whatsoever kind and nature, imposed on, incurred by or asserted against any Indemnified Party that in any way relate to or arise out of any of the Loan Documents, the transactions contemplated thereby or the Collateral, including, without limitation (collectively, the "Losses"), (i) the selection, manufacture, construction, acquisition, acceptance or rejection of the Collateral, (ii) the ownership of the Collateral, (iii) the delivery, installation, lease, possession, maintenance, use, condition, return or operation of the Collateral, (iv) the condition of the Collateral sold or otherwise disposed of after possession by Borrower, (v) any patent or copyright infringement, (vi) any act or omission on the part of Borrower, Guarantor or any of its or their officers, employees, agents, contractors, lessees, licensees or invitees, (vii) any misrepresentation or inaccuracy in any representation or warranty of Borrower or any Guarantor, or a breach of Borrower or any Guarantor of any of its covenants or obligations under any of the Loan Documents, (viii) any claim, loss, cost or expense involving alleged damage to the environment relating to the Collateral, including, without limitation, investigation, removal, cleanup and remedial costs, (ix) any personal injury, wrongful death or property damage arising under any statutory or common law or tort law theory, including, without limitation, damages assess for the maintenance of a private or public nuisance or for the conducting of an abnormally dangerous activity on or near the Collateral, (x) any past, present or threatened, in writing, injury to, or destruction of, the Collateral, including, without limitation, costs to investigate and assess such injury or damage and (xi) any administrative process or proceeding or judicial or other similar proceeding (including, without limitation, any alternative dispute resolution process and any bankruptcy proceeding) in any way connected with any matter addressed in any of the Loan Documents.

(b) If any action or proceeding be commenced, to which action or proceeding the Indemnified Parties are made a party by reason of the execution or performance of this Agreement or any other Loan Document, or in which it becomes necessary to defend or uphold the Lien of this Agreement, all sums paid by the Indemnified Parties, for the expense of any litigation to prosecute or defend the rights and Lien created hereby or otherwise, shall be paid by Borrower to such Indemnified Parties as the case may be, as hereinafter provided. Borrower will pay and save the Indemnified Parties harmless against any and all liability with respect to any intangible personal property tax or similar imposition of any state or any subdivision or authority thereof now or hereafter in effect, to the extent that the same may be payable by the Indemnified Parties in respect of this Agreement or any Obligation.

(c) All amounts payable to the Indemnified Parties under this Section shall be deemed Obligations secured by this Agreement and shall be payable immediately upon demand. In case any action, suit or proceeding is brought against the Indemnified Parties by reason of any such occurrence, Borrower, upon request of such Indemnified Parties, will, at Borrower's expense, resist and defend such action, suit or proceeding or cause the same to be resisted or defended by counsel designated by Lender. The obligations of Borrower under this Section shall survive the termination of this Agreement and not be merged with any applicable judgment. If and to the extent that the foregoing undertaking may be unenforceable for any reason, Borrower hereby agrees to make the maximum contribution to the payment and satisfaction of each of the Losses that is permissible under

applicable law.

SECTION 6.04. PERFORMANCE BY LENDER. If any Borrower at any time fails to perform or observe any of the covenants or agreements contained in this Agreement, Lender may, but need not, perform or observe such covenant on behalf and in the name, place and stead of each Borrower (or, at Lender's option, in Lender's name) and may, but need not, take any and all other actions which Lender may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens or encumbrances, the performance of obligations owed to account debtors or other obligors, the procurement and maintenance of insurance, the execution of assignments, security agreements and financing statements, and the endorsement of instruments); and Borrower shall thereupon pay to Lender on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees and legal expenses) incurred by Lender in connection with or as a result of the performance or observance of such agreements or the taking of such action by Lender,

together with interest thereon from the date expended or incurred at the lesser of the highest Default Rate then in effect or the highest rate permitted by law. To facilitate the performance or observance by Lender of such covenants of Borrower, each Borrower hereby irrevocably appoints Lender, or the delegate of Lender, acting alone, as the attorney in fact of Borrower with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file in the name and on behalf of Borrower any and all instruments, documents, assignments, security agreements, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by Borrower under this Agreement.

#### ARTICLE VII: EVENTS OF DEFAULT

SECTION 7.01. EVENTS OF DEFAULT. Each of the following events or occurrences shall constitute an "Event of Default":

(a) Borrower shall default in the payment of any Obligation when due and such failure continues for 10 calendar days;

(b) Any representation or warranty of Borrower made in any Loan Document or any other writing or certificate furnished by or on behalf of Borrower pursuant to any Loan Document is or shall be incorrect when made in any material respect;

(c) Borrower shall fail to perform any of its obligations under Section 6.01(c), 6.01(f), 6.01(i), 6.01(j) or 6.02(a);

(d) Borrower shall default in the due performance and observance of any other agreement contained herein or in any other Loan Document (other than items set forth elsewhere in this Section 7.01), and such default shall continue unremedied for a period of 30 days after Borrower has actual knowledge thereof or has received notice by Lender thereof;

(e) The occurrence of an event of default or a breach or default, after the passage of all applicable notice and cure or grace periods provided therefor, under any other Loan Document or any other agreement between or among Borrower, any Guarantor or any of their Subsidiaries and Lender or any of its Affiliates;

(f) The occurrence of a default or an event of default (however defined) under any instrument, agreement or other document evidencing or relating to, and the acceleration of, any indebtedness or other monetary obligation of Borrower, any Guarantor or any of their Subsidiaries having a principal amount, individually or in the aggregate, in excess of \$3,000,000;

(g) Any judgment or order for the payment of money (not paid or fully covered by insurance maintained in accordance with the requirements of this Agreement and as to which the relevant insurance company has acknowledged coverage) in excess of \$3,000,000 shall be rendered against Borrower, any Guarantor or any of their Subsidiaries;

(h) The occurrence of any Change in Control;

(i) Borrower, any Guarantor or any of their Subsidiaries shall be or become insolvent, or admit in writing its inability to pay its debts as they mature, or make an assignment for the benefit of creditors; or Borrower, any Guarantor or any of their Subsidiaries shall apply for or consent to the appointment of any receiver, trustee or similar officer for it or for all or any substantial part of its property; or such receiver, trustee or similar officer shall be appointed without the application or consent of Borrower, any Guarantor or any of their Subsidiaries; Borrower, any Guarantor or any of their Subsidiaries shall institute (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application or otherwise) against Borrower, any Guarantor or any of their Subsidiaries; or any Individual Guarantor shall become disabled or die;

(j) Any Loan Document or any Lien granted thereunder shall (except in accordance with its terms), in whole or in part, terminate, cease to be effective or cease to be the legally valid, binding and enforceable obligation of Borrower; Borrower, any Guarantor, any of their Subsidiaries or any other party shall, directly or indirectly, contest in any manner the effectiveness, validity, binding nature or enforceability of any Loan Document or any Lien granted thereunder; or any Lien securing (or required to secure) any Obligation shall, in whole or in part, cease to be a first

priority perfected Lien subject only to Permitted Liens;

(k) The occurrence of an ERISA Event that, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in liability of Borrower or any Guarantor or any of their Subsidiaries in an aggregate exceeding \$3,000,000; or

(l) The occurrence of a material adverse change in the business, assets or financial condition of Borrower or any of their Subsidiaries or any Guarantor.

## SECTION 7.02. REMEDIES.

(a) Following the occurrence of an Event of Default described in subsection (i) of Section 7.01, all of the outstanding principal amount of the Loans and other Obligations shall be due and payable and the Commitment (if not theretofore terminated) shall terminate, whereupon the full unpaid amount of such Loans and other Obligations which shall be so declared due and payable shall be and become immediately due and payable, without presentment, notice of dishonor, protest or further notice of any kind, all of which are hereby expressly waived by Borrower, and, as the case may be, the Commitment shall terminate.

(b) Following the occurrence of any Event of Default and subject to subsection (a) of this Section, Lender may exercise, at its option, concurrently, successively or in any combination, all rights and remedies of a secured party in, to and against the Collateral granted by the UCC or otherwise available at law or in equity, including, without limitation:

(i) by notice to Borrower, declare all or any portion of the outstanding principal amount of the Loans and other Obligations to be due and payable and/or the Commitment (if not theretofore terminated) to be terminated, whereupon the full unpaid amount of such Loans and other Obligations which shall be so declared due and payable shall be and become immediately due and payable, without presentment, notice of dishonor, protest or further notice of any kind, all of which are hereby expressly waived by Borrower, and/or, as the case may be, the Commitment shall terminate;

(ii) recover all fees and expenses (including, without limitation, reasonable attorneys' fees) in connection with the collection or enforcement of the Obligations, which fees and expenses shall constitute additional Obligations of Borrower hereunder.

(iii) take immediate and exclusive possession of the Collateral, which constitutes personal property, or any part thereof, with or without any court order or other process of law and enter the premises where such Collateral is located and remove the same therefrom, or require Borrower to assemble and package such Collateral and make it available to Lender for its possession at a place designated by Lender;

(iv) sell, lease, sublease, hold or otherwise dispose of all or any part of the Collateral and hold, maintain, preserve and prepare the Collateral for sale until disposed of;

(v) act as, and Borrower hereby constitutes and appoints Lender, Borrower's true, lawful and irrevocable attorney-in-fact (which appointment is coupled with an interest) to demand, receive and enforce payments and to give receipts, releases, satisfaction for and to sue for moneys payable to Borrower under or with respect to any of the Collateral, and actions taken pursuant to this appointment may be taken either in the name of Borrower or in the name of Lender with the same force and effect as if this appointment had not been made;

(vi) sue for specific performance of any Obligation or recover damages for breach thereof; and

(vii) exercise any one or more of the remedies available under any Loan Document.

SECTION 7.03. USE OF PROCEEDS. Any proceeds received by Lender in exercising the rights and remedies specified in Section 7.02 shall be first applied to pay the costs and expenses, including, without limitation, reasonable attorneys' fees and expenses, incurred by Lender as a result of an Event of Default. Any proceeds remaining after payment of such costs and expenses shall be applied to the satisfaction of the Obligations as determined by Lender in its sole discretion and, unless Lender accepts the Collateral in full or partial satisfaction of the Obligations, any excess proceeds after satisfaction of all Obligations shall be paid to Borrower.

## ARTICLE VIII: MISCELLANEOUS PROVISIONS

SECTION 8.01. WAIVERS, AMENDMENTS. No provision of this Agreement or any of the other Loan Documents shall be deemed waived or amended except by a written instrument setting forth the matter waived or amended and signed by the party against which enforcement of such waiver or amendment is sought. Waiver of

any matter shall not be deemed a waiver of the same or any other matter on any future occasion. No notice to or demand on Borrower in any case shall entitle it to any notice or demand in similar or other circumstances.

SECTION 8.02. NOTICES. All notices, certificates, requests, demands and other communications provided for hereunder or under any Loan Document shall be in writing and shall be (a) personally delivered or (b) sent by overnight courier of national reputation, and shall be deemed to have been given on (i) the date received if personally delivered and (ii) the next Business Day if sent by overnight courier. All communications shall be addressed to the party to whom notice is being given at its Notice Address.

If notice to Borrower of any intended disposition of the Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in this Section) at least 10 calendar days prior to the date of intended disposition or other action.

SECTION 8.03. SEVERABILITY. Any provision of this Agreement or any other Loan Document which is invalid, illegal or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without invalidating the remaining provisions of this Agreement or such Loan Document or affecting the validity, legality or enforceability of such provision in any other jurisdiction.

SECTION 8.04. EXECUTION IN COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one and the same document, and any of the parties hereto may execute this Agreement by signing any such counterpart, provided that only the original marked "ORIGINAL: 1 of 4" on the execution page thereof shall constitute chattel paper under the UCC.

SECTION 8.05. FURTHER ASSURANCE AND CORRECTIVE INSTRUMENTS. Borrower hereby agrees that it will, from time to time, execute, acknowledge and deliver or authorize, as applicable, or cause to be executed, acknowledged and delivered or authorized, such further acts, instruments, conveyances, transfers and assurances and take such other actions, as Lender reasonably deems necessary or advisable for the implementation, correction, confirmation or perfection of this Agreement or the other Loan Documents and any rights of Lender hereunder or thereunder. Borrower hereby designates and appoints Lender as its agent, and grants to Lender a power of attorney (which is coupled with an interest), to execute on behalf of Borrower such additional documents and to take such other action.

SECTION 8.06. TIME OF THE ESSENCE. Time is of the essence with respect to the performance by Borrower of the Obligations.

SECTION 8.07. ENTIRE AGREEMENT. This Agreement and the other Loan Documents constitute the entire agreement between Lender and Borrower. There are no other understandings, agreements, representations or warranties, written or oral, between Lender and Borrower with respect to the subject matter of this Agreement and the other Loan Documents. Upon the execution and delivery of this Agreement and the other Loan Documents, any proposal or loan commitment with respect to the transactions contemplated by this Agreement shall be deemed null and void and of no further force and effect (except to the extent of the provisions therein concerning any Closing Fee), and the terms and conditions of this Agreement and the other Loan Documents shall control notwithstanding that such terms and conditions may be inconsistent with or vary from those set forth in such bid proposal or loan commitment.

SECTION 8.08. GOVERNING LAW. THIS AGREEMENT AND THE NOTES SHALL EACH BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAWS PRINCIPLES THEREOF.

SECTION 8.09. SUCCESSORS AND ASSIGNS; ASSIGNMENTS BY LENDER. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Borrower may not assign or transfer its rights or obligations hereunder without the prior written consent of Lender. Lender may assign, in whole or in part, its rights under this Agreement, including, without limitation, in connection with any assignment, participation and/or securitization. Upon any assignment by Lender of its entire right and interest under the Loan Documents, Lender shall automatically be relieved, from and after the date of such assignment, of any liability for the performance of any obligation of Lender therein.

SECTION 8.10. ASSIGNMENTS, PARTICIPATIONS AND SECURITIZATIONS. Borrower acknowledges and agrees that a material inducement to Lender's willingness to complete the transactions contemplated by the Loan Documents is that Lender may, at any time, complete an assignment, participation or securitization with respect to any Loan Document or any or all of the servicing rights with respect thereto. In connection with any such assignment, participation or securitization:

(a) Borrower agrees to cooperate in good faith with Lender, including, without limitation, providing such documents, financial information and other information ("Information") reasonably requested by Lender or any entity involved with respect to such assignment, participation or securitization;

(b) Borrower consents to Lender's providing the Information, including any other information that Lender may now have or hereafter acquire with respect to Borrower or the Collateral to any entity involved with respect to such assignment, participation or securitization;



(c) Notwithstanding anything to the contrary in any Loan Document, in the event that Lender assigns a Note, (i) the related Loan shall be deemed a separate loan that includes and incorporates each term and condition in this Agreement and the Loan Documents related thereto, (ii) the term "Obligations" as used herein and in the Loan Documents with respect to any assignee shall mean only the Indebtedness and obligations evidenced by or related to the Notes held by the assignee and (iii) the term Collateral as used herein and in the Loan Documents with respect to such assignee shall mean only the Collateral described on the Collateral Schedules that specifically refer to the Notes held by such assignee.

(d) If at least one, but not all, of the Loans is subject to an assignment, participation or securitization, Borrower, at Lender's request, shall promptly execute (i) a separate loan agreement with respect to the Loans subject to assignment, participation or securitization which shall be in substantially the same form and substance as this Agreement but shall only apply with respect to Collateral corresponding to such Loans subject to an assignment, participation or securitization and (ii) an amendment to the Loan Documents to delete the Collateral corresponding to the Loans that are subject to assignment, participation or securitization.

SECTION 8.11. WAIVER OF JURY TRIAL. LENDER AND BORROWER HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF, DIRECTLY OR INDIRECTLY, THIS AGREEMENT, ANY OF THE LOAN DOCUMENTS, ANY DEALINGS BETWEEN LENDER AND BORROWER RELATING TO THE SUBJECT MATTER OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY LOAN DOCUMENT, AND/OR THE RELATIONSHIP THAT IS BEING ESTABLISHED BETWEEN LENDER AND BORROWER. BORROWER ACKNOWLEDGES AND AGREES THAT THIS PROVISION IS A MATERIAL INDUCEMENT FOR LENDER ENTERING INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT (INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS). THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT, ANY LOAN DOCUMENT, OR TO ANY OTHER DOCUMENT OR AGREEMENT RELATING TO THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY RELATED TRANSACTION. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

SECTION 8.12. FORUM SELECTION AND CONSENT TO JURISDICTION. BORROWER AND LENDER HEREBY IRREVOCABLY SUBMIT TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND ANY COURT IN THE STATE OF NEW YORK LOCATED IN THE CITY AND COUNTY OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND TO OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREUNDER OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT; PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT LENDER'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH COLLATERAL MAY BE FOUND. BORROWER HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF SUCH COURTS FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH LITIGATION. BORROWER FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF NEW YORK. BORROWER HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE OR HEREAFTER MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. TO THE EXTENT THAT BORROWER HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM JURISDICTION OF ANY COURT FROM ANY LEGAL PROCESS (WHETHER THROUGH SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION OR OTHERWISE) WITH RESPECT TO ITSELF OR ITS PROPERTY, BORROWER HEREBY IRREVOCABLY WAIVES SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

SECTION 8.13. WAIVER OF CERTAIN CLAIMS. TO THE EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND EACH GUARANTOR SHALL NOT ASSERT, AND HEREBY WAIVES, ANY CLAIM AGAINST LENDER ON ANY THEORY OF LIABILITY FOR SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES (AS OPPOSED TO DIRECT OR ACTUAL DAMAGES) ARISING OUT OF, IN CONNECTION WITH, OR AS A RESULT OF, ANY LOAN DOCUMENT OR ANY AGREEMENT OR INSTRUMENT CONTEMPLATED THEREBY, ANY LOAN OR THE USE OF THE PROCEEDS THEREOF.

[REMAINDER OF PAGE INTENTIONALLY BLANK; EXECUTION PAGE FOLLOWS.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the day and year first above written.

BORROWER:

EXCALIBAR MINERALS INC.

By: /s/ John R. Dardenne

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Name: John R. Dardenne  
Title: Treasurer

EXCALIBAR MINERALS OF LA., L.L.C.

By: /s/ John R. Dardenne

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Name: John R. Dardenne  
Title: Treasurer

LENDER:

RBS LOMBARD, INC.

By: /s/ Richard Petrucci

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Name: Richard Petrucci  
Title: Vice President

ORIGINAL: \_\_\_ OF 4

[EXECUTION PAGE OF LOAN AGREEMENT]

## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James D. Cole, certify that:

1. I have reviewed this Form 10-Q of Newpark Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the unaudited consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 5, 2004

/s/ James D. Cole

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James D. Cole, Chairman and  
Chief Executive Officer

## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Matthew W. Hardey, certify that:

1. I have reviewed this Form 10-Q of Newpark Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the unaudited consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 5, 2004

/s/ Matthew W. Hardey

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Matthew W. Hardey, Vice President and  
Chief Financial Officer

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Newpark Resources, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James D. Cole, Chairman and Chief Executive Officer (principal executive officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2004

/s/ James D. Cole

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James D. Cole, Chairman and  
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Newpark Resources, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew W. Hardey, Vice President and Chief Financial Officer (principal accounting officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2004

/s/ Matthew W. Hardey

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Matthew W. Hardey, Vice President and  
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.