RPC INC
Form 10-Q
November 03, 2014

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, 2014

Commission File No. 1-8726

RPC, INC.
(Exact name of registrant as specified in its charter)

Delaware	58-1550825
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2801 Buford Highway, Suite 520, Atlanta, Georgia 30329
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code -- (404) 321-2140

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of October 24, 2014, RPC, Inc. had 218,601,969 shares of common stock outstanding.

RPC, INC. AND SUBSIDIARIES

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ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2014 AND DECEMBER 31, 2013
(In thousands)
(Unaudited)

	September 30, 2014	December 31, 2013 (Note 1)
ASSETS		
Cash and cash equivalents	$ 8,522	$ 8,700
Accounts receivable, net	591,585	437,132
Inventories	153,948	126,604
Deferred income taxes	10,851	14,185
Income taxes receivable	11,081	5,720
Prepaid expenses	5,507	9,143
Other current assets	3,562	3,441
Total current assets	785,056	604,925
Property, plant and equipment, less accumulated depreciation of $1,199,595 in 2014 and $1,069,321 in 2013	775,714	726,307
Goodwill	32,150	31,861
Other assets	23,113	20,767
Total assets	$ 1,616,033	$ 1,383,860
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 182,123	$ 119,170
Accrued payroll and related expenses	41,446	36,638
Accrued insurance expenses	5,526	6,072
Accrued state, local and other taxes	10,609	5,002
Income taxes payable	558	-
Other accrued expenses	1,214	1,170
Total current liabilities	241,476	168,052
Long-term accrued insurance expenses	10,082	10,225
Notes payable to banks	152,000	53,300
Long-term pension liabilities	22,786	21,966
Deferred income taxes	114,459	153,176
Other long-term liabilities	14,285	8,439
Total liabilities	555,088	415,158
Common stock	21,860	21,899
Capital in excess of par value	-	-
Retained earnings	1,049,636	956,918
Accumulated other comprehensive loss	(10,551)	(10,115)

Total stockholders’ equity		1,060,945		968,702
Total liabilities and stockholders’ equity	$	1,616,033	$	1,383,860

The accompanying notes are an integral part of these consolidated financial statements.

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RPC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues	$ 620,684	$ 491,121	$ 1,705,207	$ 1,374,508
Cost of revenues (exclusive of items shown below)	398,306	303,707	1,102,596	859,512
Selling, general and administrative expenses	50,814	47,096	147,125	139,621
Depreciation and amortization	57,219	53,211	169,241	158,799
Loss on disposition of assets, net	7,684	1,268	11,321	5,665
Operating profit	106,661	85,839	274,924	210,911
Interest expense	(456)	(283)	(842)	(1,565)
Interest income	4	8	14	73
Other (expense) income, net	(454)	1,279	457	1,643
Income before income taxes	105,755	86,843	274,553	211,062
Income tax provision	40,870	33,083	106,997	81,810
Net income	$ 64,885	$ 53,760	$ 167,556	$ 129,252
Earnings per share				
Basic	$ 0.30	$ 0.25	$ 0.78	$ 0.60
Diluted	$ 0.30	$ 0.25	$ 0.77	$ 0.60
Dividends per share	$ 0.105	$ 0.100	$ 0.315	$ 0.300
Weighted average shares outstanding				
Basic	215,202	215,068	215,200	215,715
Diluted	216,334	216,142	216,316	216,862

The accompanying notes are an integral part of these consolidated financial statements.

RPC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income	$ 64,885	$ 53,760	$ 167,556	$ 129,252
Other comprehensive income (loss):				
Pension adjustment and reclassification adjustment, net of taxes	85	125	253	372
Foreign currency translation	(649)	214	(653)	(413)
Unrealized gain (loss) on securities, net of taxes	(38)	28	(36)	(2)
Comprehensive income	$ 64,283	$ 54,127	$ 167,120	$ 129,209

The accompanying notes are an integral part of these consolidated financial statements.

RPC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014
(In thousands)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2013	218,986	$21,899	$—	$956,918	$ (10,115)	$968,702
Stock issued for stock incentive plans, net	579	57	7,058	—	—	7,115
Stock purchased and retired	(963)	(96)	(11,436)	(6,016)	—	(17,548)
Net income	—	—	—	167,556	—	167,556
Pension adjustment, net of taxes	—	—	—	—	253	253
Foreign currency translation	—	—	—	—	(653)	(653)
Unrealized loss on securities, net of taxes	—	—	—	—	(36)	(36)
Dividends declared	—	—	—	(68,822)	—	(68,822)
Excess tax benefits for share-based payments	—	—	4,378	—	—	4,378
Balance, September 30, 2014	218,602	$21,860	$—	$1,049,636	$ (10,551)	$1,060,945

The accompanying notes are an integral part of these consolidated financial statements.

RPC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(In thousands)
(Unaudited)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
OPERATING ACTIVITIES		
Net income	$ 167,556	$ 129,252
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash charges	171,382	160,706
Stock-based compensation expense	7,115	6,397
Loss on disposition of assets, net	11,321	5,665
Deferred income tax benefit	(35,508)	(10,579)
Excess tax benefits for share-based payments	(4,378)	(3,157)
(Increase) decrease in assets:		
Accounts receivable	(154,687)	(2,677)
Income taxes receivable	(983)	(7,697)
Inventories	(27,746)	12,392
Prepaid expenses	3,494	5,646
Other current assets	(180)	1,095
Other non-current assets	(1,701)	(585)
Increase (decrease) in liabilities:		
Accounts payable	53,170	10,924
Income taxes payable	558	(6,260)
Accrued payroll and related expenses	4,841	1,273
Accrued insurance expenses	(546)	(272)
Accrued state, local and other taxes	5,607	1,536
Other accrued expenses	38	(1,502)
Pension liabilities	1,218	2,121
Long-term accrued insurance expenses	(143)	589
Other long-term liabilities	5,846	(1,330)
Net cash provided by operating activities	206,274	303,537
INVESTING ACTIVITIES		
Capital expenditures	(237,473)	(159,854)
Proceeds from sale of assets	14,980	8,578
Net cash used for investing activities	(222,493)	(151,276)
FINANCING ACTIVITIES		
Payment of dividends	(68,822)	(65,923)
Borrowings from notes payable to banks	826,800	500,700
Repayments of notes payable to banks	(728,100)	(556,300)

Debt issue costs for notes payable to banks	(667)	-
Excess tax benefits for share-based payments	4,378	3,157
Cash paid for common stock purchased and retired	(17,548)	(25,121)
Net cash provided by (used for) financing activities	16,041	(143,487)
Net (decrease) increase in cash and cash equivalents	(178)	8,774
Cash and cash equivalents at beginning of period	8,700	14,163
Cash and cash equivalents at end of period	$ 8,522	$ 22,937
Supplemental cash flows disclosure:		
Interest paid, net of amounts capitalized	$ 836	$ 1,145
Income taxes paid, net	$ 136,647	$ 106,728
Supplemental disclosure of noncash investing activities:		
Capital expenditures included in accounts payable	$ 29,495	$ 19,987

The accompanying notes are an integral part of these consolidated financial statements.

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RPC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The accompanying unaudited consolidated financial statements include the accounts of RPC, Inc. and its wholly-owned subsidiaries ("RPC" or the "Company") and have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America for complete financial statements. These consolidated financial statements have been prepared in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810, "Consolidation" and Rule 3A-02(a) of Regulation S-X. In accordance with ASC Topic 810 and Rule 3A-02 (a) of Regulation S-X, the Company's policy is to consolidate all subsidiaries and investees where it has voting control.

In the opinion of management, all adjustments (all of which consisted of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2013.

A group that includes the Company's Chairman of the Board, R. Randall Rollins, and his brother Gary W. Rollins, who is also a director of the Company, and certain companies under their control, controls in excess of fifty percent of the Company's voting power.

2. REVENUES

RPC's revenues are generated principally from providing services and the related equipment. Revenues are recognized when the services are rendered and collectability is reasonably assured. Revenues from services and equipment are based on fixed or determinable priced purchase orders or contracts with the customer and do not include the right of return. Rates for services and equipment are priced on a per day, per unit of measure, per man hour or similar basis. Sales tax charged to customers is presented on a net basis within the consolidated statement of operations and excluded from revenues.

3. RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) issued the following applicable Accounting Standards Updates (ASU):

Recently Adopted Accounting Pronouncements:

Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. The amendments in this ASU require that when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the parent should release the cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity; and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. The Company adopted these provisions in the first quarter of 2014 and adoption did not have a material impact on the Company's consolidated financial statements.

RPC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Standards Update 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this ASU requires an unrecognized tax benefit, or a portion of thereof, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward. The only exception would be if the deferred taxes related to these items are not available to settle any additional income taxes that would result from the disallowance of a tax position either by statute or at the entity's choosing. In such cases, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The Company adopted these provisions in the first quarter of 2014 and adoption did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted:

Accounting Standards Update No. 2014-15, Presentation of Financial Statements —Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The provisions in this ASU are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Currently, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. This going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. This ASU provides guidance regarding management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern and the related footnote disclosures. The amendments are effective for the year ending December 31, 2016, and for interim periods beginning the first quarter of 2017, with early application permitted. The Company plans to adopt the provisions for the year ending December 31, 2016 and will provide such disclosures as required if there are conditions and events that raise substantial doubt about its ability to continue as a going concern. The Company currently does not expect the adoption to have a material impact on its consolidated financial statements.

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply a five step process – (i) identifying the contract(s) with a customer, (ii) identifying the performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the performance obligations in the contract and (v) recognizing revenue when (or as) the entity satisfies a performance obligation. The Company plans to adopt these provisions in the first quarter of 2017 and is currently evaluating the impact of these provisions on its financial statements. Early adoption is not permitted.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Standards Update 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in the ASU require that only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective in the first quarter of 2015 with early adoption permitted. The Company plans to adopt these provisions in the first quarter of 2015 and does not expect the adoption to have a material impact on the Company's consolidated financial statements.

4. EARNINGS PER SHARE

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the respective periods. The basic and diluted calculations differ as a result of the dilutive effect of stock options and time lapse restricted shares included in diluted earnings per share, but excluded from basic earnings per share. In addition, the Company has periodically issued share-based payment awards that contain non-forfeitable rights to dividends and are therefore considered participating securities.

A reconciliation of weighted average shares outstanding is as follows:

	Three months ended September 30		Nine months ended September 30	
(In thousands except per share data)	2014	2013	2014	2013
Net income available for stockholders:	$ 64,885	$ 53,760	$ 167,556	$ 129,252
Less: Dividends paid	(22,939)	(21,892)	(68,822)	(65,923)
Undistributed earnings	$ 41,946	$ 31,868	$ 98,734	$ 63,329
Basic shares outstanding:				
Common stock	211,604	210,899	211,552	211,493
Restricted shares of common stock	3,598	4,169	3,648	4,222
	215,202	215,068	215,200	215,715
Diluted shares outstanding:				
Common stock	211,604	210,899	211,552	211,493
Dilutive effect of stock based awards	1,132	1,074	1,116	1,147
	212,736	211,973	212,668	212,640
Restricted shares of common stock	3,598	4,169	3,648	4,222
	216,334	216,142	216,316	216,862

Reported basic EPS of the restricted shares of common stock under the two-class method generated the following reductions - $0.02 for the three months ended September 30, 2014 and $0.01 for the three months ended September 30, 2013; $0.06 for the nine months ended September 30, 2014 and $0.04 for the nine months ended September 30, 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. STOCK-BASED COMPENSATION

In April 2014, the Company reserved 8,000,000 shares of common stock under the 2014 Stock Incentive Plan with a term of 10 years expiring in April 2024. This plan provides for the issuance of various forms of stock incentives, including, among others, incentive and non-qualified stock options and restricted shares. As of September 30, 2014, all of these shares were available for grant.

Stock-based employee compensation expense was as follows for the periods indicated:

	Three months ended September 30		Nine months ended September 30	
(in thousands)	2014	2013	2014	2013
Pre-tax expense	$ 2,398	$ 2,146	$ 7,115	$ 6,397
After tax expense	$ 1,523	$ 1,363	$ 4,518	$ 4,062

Restricted Stock

The following is a summary of the changes in non-vested restricted shares for the nine months ended September 30, 2014:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at December 31, 2013	4,114,800	$ 9.67
Granted	657,375	18.84
Vested	(1,106,250)	7.19
Forfeited	(78,325)	10.28
Non-vested shares at September 30, 2014	3,587,600	$ 12.04

The total fair value of shares vested during the nine months ended September 30, 2014 was $20,634,000 and during the nine months ended September 30, 2013 was $15,471,000. Tax benefits for compensation tax deductions in excess of compensation expense for restricted shares totaled $4,378,000 for the nine months ended September 30, 2014 and $3,157,000 for the nine months ended September 30, 2013. These tax benefits were credited to capital in excess of par value and classified as financing cash flows.

As of September 30, 2014, total unrecognized compensation cost related to non-vested restricted shares was $39,884,000 which is expected to be recognized over a weighted-average period of 3.3 years.

6. BUSINESS SEGMENT INFORMATION

RPC's service lines have been aggregated into two reportable oil and gas services segments, Technical Services and Support Services, because of the similarities between the financial performance and approach to managing the service lines within each of the segments, as well as the economic and business conditions impacting their business activity levels. Corporate includes selected administrative costs incurred by the Company that are not allocated to business units. Gains or losses on disposition of assets are reviewed by the Company's chief decision maker on a consolidated basis, and accordingly the Company does not report these gains or losses at the segment level.

Technical Services include RPC's oil and gas service lines that utilize people and equipment to perform value-added completion, production and maintenance services directly to a customer's well. These services include pressure pumping services, snubbing, coiled tubing, nitrogen pumping, well control consulting and firefighting, downhole tools, wireline, and fluid pumping services. These Technical Services are primarily used in the completion, production and maintenance of oil and gas wells. The principal markets for this segment include the United States, including the Gulf of Mexico, the mid-continent, southwest, Rocky Mountain and Appalachian regions, and international locations including primarily Africa, Australia, Canada, China and Mexico. Customers include major multi-national and independent oil and gas producers, and selected nationally-owned oil companies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Support Services include RPC's oil and gas service lines that primarily provide equipment for customer use or services to assist customer operations. The equipment and services include drill pipe and related tools, pipe handling, inspection and storage services and oilfield training services. The demand for these services tends to be influenced primarily by customer drilling-related activity levels. The principal markets for this segment include the United States, including the Gulf of Mexico and the mid-continent regions, and selected international locations. Customers include domestic operations of major multi-national and independent oil and gas producers, and selected nationally-owned oil companies.

Inter-segment revenues are generally recorded in segment operating results at prices that management believes approximate prices for arm's length transactions and are not material to operating results.

Certain information with respect to RPC's business segments is set forth in the following tables:

(in thousands)	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
Revenues:				
Technical Services	$ 576,908	$ 458,168	$ 1,588,270	$ 1,276,209
Support Services	43,776	32,953	116,937	98,299
Total revenues	$ 620,684	$ 491,121	$ 1,705,207	$ 1,374,508
Operating profit:				
Technical Services	$ 102,849	$ 86,183	$ 267,462	$ 210,807
Support Services	14,735	6,022	31,190	19,361
Corporate	(3,239)	(5,098)	(12,407)	(13,592)
Loss on disposition of assets, net	(7,684)	(1,268)	(11,321)	(5,665)
Total operating profit	$ 106,661	$ 85,839	$ 274,924	$ 210,911
Interest expense	(456)	(283)	(842)	(1,565)
Interest income	4	8	14	73
Other (expense) income, net	(454)	1,279	457	1,643
Income before income taxes	$ 105,755	$ 86,843	$ 274,553	$ 211,062

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended September 30, 2014 (in thousands)	Technical Services	Support Services	Corporate	Total
Depreciation and amortization	$ 145,054	$ 23,727	$ 460	$ 169,241
Capital expenditures	213,244	23,360	869	237,473
Identifiable assets at September 30, 2014	$ 1,384,353	$ 168,123	$ 63,557	$ 1,616,033

Nine months ended September 30, 2013 (in thousands)	Technical Services	Support Services	Corporate	Total
Depreciation and amortization	$ 134,599	$ 23,687	$ 513	$ 158,799
Capital expenditures	129,599	29,104	1,151	159,854
Identifiable assets at September 30, 2013	$ 1,080,177	$ 193,069	$ 79,083	$ 1,352,329

7. INVENTORIES

Inventories of $153,948,000 at September 30, 2014 and $126,604,000 at December 31, 2013 consist of raw materials, parts and supplies.

8. EMPLOYEE BENEFIT PLAN

The following represents the net periodic benefit cost and related components of the Company’s multiple employers Retirement Income Plan:

	Three months ended September 30		Nine months ended September 30	
(in thousands)	2014	2013	2014	2013
Service cost	$ -	$ -	$ -	$ -
Interest cost	487	436	1,460	1,306
Expected return on plan assets	(560)	(511)	(1,680)	(1,533)
Amortization of net losses	133	197	399	588
Net periodic benefit cost	$ 60	$ 122	$ 179	$ 361

The Company contributions to this plan were $765,000 during the nine months ended September 30, 2014 and $800,000 during the nine months ended September 30, 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company permits selected highly compensated employees to defer a portion of their compensation into the non-qualified Supplemental Retirement Plan ("SERP"). The SERP assets are marked to market and totaled $15,915,000 as of September 30, 2014 and $13,963,000 as of December 31, 2013. The SERP assets are reported in non-current other assets on the consolidated balance sheet and changes in the fair value of these assets are reported in the consolidated statement of operations as part of other (expense) income, net. Trading gains (losses) related to the SERP assets were approximately as follows:

	Three months ended September 30		Nine months ended September 30	
(in thousands)	2014	2013	2014	2013
Gains (losses), net	$ (253)	$ 806	$ 384	$ 1,374

The SERP deferrals and the distributions are recorded in pension liabilities with any changes in the fair value recorded as compensation cost.

9. NOTES PAYABLE TO BANKS

The Company has a $350 million revolving credit facility with Banc of America Securities, LLC, SunTrust Robinson Humphrey, Inc, and Regions Capital Markets as Joint Lead Arrangers and Joint Book Managers, and a syndicate of other lenders. The facility includes a full and unconditional guarantee by the Company's 100% owned domestic subsidiaries whose assets equal substantially all of the consolidated assets of RPC and its subsidiaries. The subsidiaries of the Company that are not guarantors are considered minor.

The facility has a general term of five years and provides for an unsecured line of credit of up to $350 million, which includes a $50 million letter of credit subfacility, and a $25 million swingline subfacility. On January 17, 2014, the Company amended the revolving credit facility which extended the maturity date of all the revolving loans from August 31, 2015 to January 17, 2019. RPC incurred commitment fees and other debt related costs associated with the amendment of approximately $0.7 million. Interest rates on the amended loans were reduced by 0.125% at all pricing levels under the amended revolving credit facility. The amount of the swing line sub-facility as a result of the amendment was increased from $25 million to $35 million.

The Company incurred loan origination fees and other debt related costs associated with the facility in the aggregate of approximately $3.0 million. These costs are being amortized to interest expense over the remaining term of the five year loan, and the net amount of $1.2 million at September 30, 2014 is classified as non-current other assets.

Revolving loans under the Revolving Credit Agreement bear interest at one of the following two rates, at the Company's election:

the Base Rate, which is the highest of Bank of America's "prime rate" for the day of the borrowing, a fluctuating rate per annum equal to the Federal Funds Rate plus 0.50%, and a rate per annum equal to the one (1) month LIBOR rate plus 1.00%; in each case plus a margin that ranges from 0.125% to

1.125% based on a quarterly debt covenant calculation; or

with respect to any Eurodollar borrowings, Adjusted LIBOR (which equals LIBOR as increased to account for the maximum reserve percentages established by the U.S. Federal Reserve) plus a margin ranging from 1.125% to 2.125%, based upon a quarterly debt covenant calculation.

In addition, the Company pays an annual fee ranging from 0.225% to 0.325%, based on a quarterly debt covenant calculation, of the unused portion of the credit facility.

The facility contains customary terms and conditions, including certain financial covenants and restrictions on indebtedness, dividend payments, business combinations and other related items. Further, the facility contains financial covenants limiting the ratio of the Company's consolidated debt-to-EBITDA to no more than 2.5 to 1, and limiting the ratio of the Company's consolidated EBITDA to interest expense to no less than 2 to 1. The Company was in compliance with these covenants for the nine months ended September 30, 2014.

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At September 30, 2014, the Company had outstanding borrowings of $152.0 million under the facility, and letters of credit outstanding relating to self-insurance programs and contract bids totaling $24.1 million; therefore, a total of $173.9 million of the facility was available.

Interest incurred on the credit facility, interest capitalized related to facilities and equipment under construction, and the related weighted average interest rates were as follows for the periods indicated:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
(in thousands except interest rate data)				
Interest incurred	$ 655	$ 474	$ 1,541	$ 1,640
Capitalized interest	$ 180	$ 246	$ 392	$ 735
Weighted average interest rate	2.1 %	4.6 %	2.5 %	3.4 %

10. INCOME TAXES

The Company determines its periodic income tax benefit or expense based upon the current period income and the annual estimated tax rate for the Company adjusted for any change to prior period estimates. The estimated tax rate is revised, if necessary, as of the end of each successive interim period during the fiscal year to the Company’s current annual estimated tax rate.

For the three months ended September 30, 2014, the income tax provision reflects an effective tax rate of 38.6 percent, compared to an effective tax rate of 38.1 percent for the comparable period in the prior year. For the nine months ended September 30, 2014, the income tax provision reflects an effective tax rate of 39.0 percent, compared to an effective tax rate of 38.8 percent for the comparable period in the prior year.

11. FAIR VALUE DISCLOSURES

The various inputs used to measure assets at fair value establish a hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Company’s assumptions (unobservable inputs). The hierarchy consists of three broad levels as follows:

1. Level 1 – Quoted market prices in active markets for identical assets or liabilities.
2. Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
3. Level 3 – Unobservable inputs developed using the Company’s estimates and assumptions, which reflect those that market participants would use.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the balance sheets as of September 30, 2014 and December 31, 2013:

	Fair value measurements at September 30, 2014 with:		
(in thousands)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:			
Trading securities	$ -	$ 15,915	$ -
Available for sale securities	388	-	-

	Fair value measurements at December 31, 2013 with:		
(in thousands)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:			
Trading securities	$ -	$ 13,963	$ -
Available for sale securities	445	-	-

The Company determines the fair value of the marketable securities that are available-for-sale through quoted market prices. The total fair value is the final closing price, as defined by the exchange in which the asset is actively traded, on the last trading day of the period, multiplied by the number of units held without consideration of transaction costs. Significant observable inputs in addition to quoted market prices were used to value trading securities. As a result, the Company classified these investments as using level 2 inputs.

The outstanding balance on the Revolving Credit Agreement was $152.0 million at September 30, 2014 and $53.3 million at December 31, 2013 which approximates fair value. The fair value of these borrowings was based on quotes from the lender (level 2 inputs). The borrowings under the Company's revolving credit agreement bear interest at the variable rate described in Note 9. The Company is subject to interest rate risk on the variable component of the interest rate.

The carrying amounts of other financial instruments reported in the balance sheet for current assets and current liabilities approximate their fair values because of the short-term nature of these instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Accumulated other comprehensive (loss) income consists of the following (in thousands):

	Pension Adjustment	Unrealized Gain (Loss) On Securities	Foreign Currency Translation	Total
Balance at December 31, 2013	$ (9,760)	$ 10	$ (365)	$ (10,115)
Change during the period:				
Before-tax amount	-	(57)	(653)	(710)
Tax benefit	-	21	-	21
Reclassification adjustment, net of taxes:				
Amortization of net loss (1)	253	-	-	253
Total activity for the period	253	(36)	(653)	(436)
Balance at September 30, 2014	$ (9,507)	$ (26)	$ (1,018)	$ (10,551)

(1) Reported as part of selling, general and administrative expenses.

	Pension Adjustment	Unrealized Gain (Loss) On Securities	Foreign Currency Translation	Total
Balance at December 31, 2012	$ (14,688)	$ 29	$ 413	$ (14,246)
Change during the quarter:				
Before-tax amount	-	(3)	(413)	(416)
Tax benefit	-	1	-	1
Reclassification adjustment, net of taxes:				
Amortization of net loss (1)	372	-	-	372
Total activity for the quarter	372	(2)	(413)	(43)
Balance at September 30, 2013	$ (14,316)	$ 27	$ -	$ (14,289)

(1) Reported as part of selling, general and administrative expenses.

13. SUBSEQUENT EVENT

On October 28, 2014, the Board of Directors approved a $0.105 per share cash dividend payable December 10, 2014 to stockholders of record at the close of business November 10, 2014.

RPC, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this document. See also "Forward-Looking Statements" on page 25.

RPC, Inc. ("RPC") provides a broad range of specialized oilfield services primarily to independent and major oilfield companies engaged in exploration, production and development of oil and gas properties throughout the United States, including the Gulf of Mexico, mid-continent, southwest, Rocky Mountain and Appalachian regions, and in selected international locations. The Company's revenues and profits are generated by providing equipment and services to customers who operate oil and gas properties and invest capital to drill new wells and enhance production or perform maintenance on existing wells. We continuously monitor factors that impact current and expected customer activity levels, such as the price of oil and natural gas, changes in pricing for our services and equipment, and utilization of our equipment and personnel. Our financial results are affected by geopolitical factors such as political instability in the petroleum-producing regions of the world, overall economic conditions and weather in the United States, the prices of oil and natural gas, and our customers' drilling and production activities.

The discussion of our key business and financial strategies set forth under the Overview section in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2013 is incorporated herein by reference. In 2014, the Company's strategy of utilizing equipment in unconventional basins has continued. During the three months ended September 30, 2014, we made approximately $124.7 million in capital expenditures primarily for the purchases of new equipment as well as maintenance of our existing revenue-producing equipment. Capital expenditures during the remainder of 2014 will continue to increase over those expenditures in the preceding quarter due to a new pressure pumping expansion plan. We continue to focus on oil and natural gas liquids directed basins where customer activity levels are higher.

During the third quarter of 2014, revenues increased 26.4 percent to $620.7 million compared to the same period in the prior year. The increase in revenues resulted primarily from higher activity levels and greater service intensity in our major service lines and a slightly larger fleet of revenue-producing equipment. International revenues for the third quarter of 2014 increased 5.7 percent to $19.1 million compared to the same period in the prior year. International revenues reflect increases in customer activity levels primarily in Argentina and Gabon partially offset by a decrease in China. We continue to focus on developing international growth opportunities; however, it is difficult to predict when contracts and projects will be initiated and their ultimate duration.

Cost of revenues as a percentage of revenues increased during the third quarter of 2014 in comparison to the same period of the prior year due to more service intensive work and the associated higher raw materials costs, fuel expenses and logistical expenses as compared to the same period in the prior year, partially offset by the impact of improved personnel utilization.

Selling, general and administrative expenses as a percentage of revenues decreased to 8.2 percent in the third quarter of 2014 compared to 9.6 percent in the same period in the prior year. This percentage decrease was primarily due to leverage of higher revenues over fixed employment costs.

Income before income taxes was $105.8 million for the three months ended September 30, 2014 compared to $86.8 million in the same period of 2013. Diluted earnings per share were $0.30 for the three months ended September 30, 2014 compared to $0.25 in the same period of 2013. Cash flows from operating activities were $206.3 million for the nine months ended September 30, 2014 compared to $303.5 million in the same period of 2013 due primarily to working capital changes partially offset by an increase in net income. The notes payable to banks increased to $152.0 million as of September 30, 2014 compared to $53.3 million as of December 31, 2013.

We expect capital expenditures during full year 2014 will be approximately $375 million, and to be directed towards the purchases of new revenue-producing equipment as well as the capitalized maintenance of our existing fleet of revenue-producing equipment.

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Outlook

Drilling activity in the U.S. domestic oilfields, as measured by the rotary drilling rig count, reached a cyclical peak of 2,031 during the third quarter of 2008. The global recession that began during the fourth quarter of 2007 precipitated the steepest annualized rig count decline in U.S. domestic oilfield history. From the third quarter of 2008 to the third quarter of 2009, the U.S. domestic rig count dropped almost 57 percent, reaching a trough of 876 in June 2009. Between its cyclical trough in the third quarter of 2009 and its most recent peak of 2,026 during the fourth quarter of 2011, U.S. domestic drilling activity increased by approximately 131 percent. Beginning late in the fourth quarter of 2011, the domestic drilling rig count began to decline and continued to steadily decline throughout 2013. During 2013 and the first two quarters of 2014, the rotary drilling rig count has not varied significantly. During the third quarter of 2014, the average rotary drilling rig count was 7.5 percent higher than the third quarter of 2013 and 2.8 percent higher than the second quarter of 2014. At the end of the third quarter of 2014, the rotary drilling rig count was 11 percent higher than at the same time in 2013. Horizontal and directional wells drilled as a percentage of total oilfield wells drilled have grown steadily over the past several years and represented approximately 80 percent of total wells drilled during the third quarter of 2014. Natural gas-directed drilling activity remains at very low levels, and at the end of the third quarter of 2014 remained at the lowest levels recorded since the third quarter of 1993.

The current and projected prices of oil, natural gas and natural gas liquids are important catalysts for U.S. domestic drilling activity. The average price of oil was high during 2013 and the first and second quarters of 2014, although it has fallen significantly during the third quarter and early in the fourth quarter of 2014. At the beginning of the fourth quarter of 2014 the price of oil is approximately 18 percent lower than at the same time in 2013 and 22 percent lower than its highest price during the third quarter of 2014. The relatively high price of oil is reflected in the current composition of the U.S. domestic rig count, approximately 82 percent of which was directed towards oil at the end of the third quarter of 2014. However, the recent decline in the price of oil and the current uncertainty regarding its price in the near term may discourage our customers from continuing to drill new oil-directed wells in the immediate future. The price of natural gas rose during 2013 and early 2014, recovering from declines in several previous years. The price of natural gas moderated during the third quarter of 2014, and early in the fourth quarter of 2014 is the same as at the same time in 2013. As noted above, natural gas-directed drilling activity has fallen to its lowest level in 21 years. The price of natural gas liquids has become an increasingly important determinant of our customers' activities, since its sales comprise a large part of our customers' revenues, and it is produced in many of the shale resource plays that also produce oil. During the first nine months of 2014, the average price of benchmark natural gas liquids was 13.7 percent higher than during the 12 months ended December 31, 2013. We believe that the increase in the price of natural gas liquids during 2014 has led to slightly improved activity levels in selected markets.

The relatively small increases in domestic drilling activity indicate minimal increases in our customer's overall activity levels. However, the higher service intensity of our customers' completion activities has had a favorable impact on our revenues during the first three quarters of 2014. We believe that this trend of increasing service intensity will continue, thus leading to higher revenues in the near term. We do not have a favorable outlook for the prices of oil and natural gas in the near term. Although an abnormally cold winter in 2014 caused an increase in the price of natural gas and a high drawdown of natural gas storage, continued high natural gas production will probably refill natural gas storage levels to their long-term average during the fourth quarter, thus discouraging additional natural gas drilling activity. Also, the price of oil has fallen during the third quarter and early in the fourth quarter of 2014. We believe that this decline is due to higher production in the United States and moderate demand in the global oil market. Also, discord within the OPEC cartel may limit that organization's ability to curtail production in order to reduce supply in the global market and maintain high oil prices. We believe that these trends will continue in the near term, although current and projected oil prices are high enough to encourage our customers to continue to conduct drilling and completion activities. For these reasons, we do not believe that the overall U.S. domestic rig count will increase significantly during the near term.

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We continue to monitor the market for our services and the competitive environment. We remain cautious about the high production of natural gas associated with oil-directed drilling, which we believe will suppress the price of natural gas to a level that will discourage our customers from conducting natural gas-directed drilling activities. In addition, we continue to monitor our customers' financial condition, because the high cost and complexity of unconventional drilling and completion activities may cause financial distress among our less well-capitalized customers, thus jeopardizing timely collection of our accounts receivable. We also monitor the competitive environment because the high historical financial returns and favorable long-term outlook for our industry has attracted new entrants and encouraged existing service companies to purchase additional revenue-producing equipment. Although less equipment has been added to the overall U.S. domestic fleet in the past year than in previous years, higher activity levels and increasing completion service intensity are causing the service capacity in the U.S. domestic market to be more highly utilized. We believe that utilization of our equipment and personnel will remain high if these trends continue, and pricing for our services and equipment will improve. For these reasons, RPC made a decision in the first quarter of 2014 to expand our fleet of pressure pumping equipment. We have started to take delivery of this equipment and place it in service during the third quarter and early in the fourth quarter of 2014 and will continue into the first quarter of 2015. We will use our bank credit facility to finance this expansion, but even with the projected additional principal drawn on this facility, we believe that we will still maintain a conservative financial structure by our industry's standards. The lack of availability and increased cost of qualified labor has been a concern and has negatively impacted our revenues and profitability. This will continue to be a concern, especially as we expand our fleet of revenue-producing equipment in 2014 and 2015, and will therefore require more qualified employees to operate this equipment. We are addressing this issue through continued recruitment of new employees, training and retention programs, and more efficient staffing models. Our consistent response to the industry's volatility is to maintain sufficient liquidity and a conservative capital structure and monitor our discretionary spending.

Results of Operations

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Consolidated revenues [in thousands]	$ 620,684	$ 491,121	$ 1,705,207	$ 1,374,508
Revenues by business segment [in thousands]:				
Technical	$ 576,908	$ 458,168	$ 1,588,270	$ 1,276,209
Support	43,776	32,953	116,937	98,299
Consolidated operating profit [in thousands]	$ 106,661	$ 85,839	$ 274,924	$ 210,911
Operating profit by business segment [in thousands]:				
Technical				