

RPC INC  
Form 10-Q  
October 31, 2017

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, 2017**

Commission File No. 1-8726

**RPC, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**58-1550825**

(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**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 20, 2017, RPC, Inc. had 216,585,808 shares of common stock outstanding.

**RPC, INC. AND SUBSIDIARIES**

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**RPC, INC. AND SUBSIDIARIES**

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016

(In thousands)

(Unaudited)

	September 30, 2017	December 31, 2016 (Note 1)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 136,892	\$ 131,835
Accounts receivable, net of allowance for doubtful accounts of \$3,952 in 2017 and \$2,553 in 2016	375,418	169,166
Inventories	113,359	108,316
Income taxes receivable	3,141	57,174
Prepaid expenses	5,587	6,718
Other current assets	8,043	5,848
Total current assets	642,440	479,057
Property, plant and equipment, less accumulated depreciation of \$1,643,347 in 2017 and \$1,595,508 in 2016	444,662	497,986
Goodwill	32,150	32,150
Other assets	29,374	26,259
Total assets	\$ 1,148,626	\$ 1,035,452
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 121,880	\$ 70,536
Accrued payroll and related expenses	25,254	12,130
Accrued insurance expenses	4,224	4,099
Accrued state, local and other taxes	7,706	3,094
Income taxes payable	4,201	4,929
Other accrued expenses	1,098	6,680
Total current liabilities	164,363	101,468
Long-term accrued insurance expenses	10,320	9,537
Long-term pension liabilities	34,934	32,864

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Deferred income taxes	53,529	81,466
Other long-term liabilities	3,627	3,318
Total liabilities	266,773	228,653
Common stock	21,658	21,749
Capital in excess of par value	—	—
Retained earnings	877,320	803,152
Accumulated other comprehensive loss	(17,125)	(18,102)
Total stockholders' equity	881,853	806,799
Total liabilities and stockholders' equity	\$ 1,148,626	\$ 1,035,452

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

**RPC, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(In thousands except per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	<b>2017</b>	2016
Revenues	\$470,999	\$175,884	\$1,167,928	\$507,977
Cost of revenues (exclusive of items shown below)	294,820	146,615	765,078	434,868
Selling, general and administrative expenses	39,738	34,859	117,183	114,863
Depreciation and amortization	39,587	51,975	125,513	168,891
Gain on disposition of assets, net	(503 )	(1,148 )	(5,779 )	(3,919 )
Operating income (loss)	97,357	(56,417 )	165,933	(206,726)
Interest expense	(105 )	(115 )	(322 )	(566 )
Interest income	488	169	1,028	296
Other income, net	564	86	2,786	274
Income (loss) before income taxes	98,304	(56,277 )	169,425	(206,722)
Income tax provision (benefit)	40,970	(17,335 )	64,617	(86,583 )
Net income (loss)	\$57,334	\$(38,942 )	\$104,808	\$(120,139)
Earnings (loss) per share				
Basic	\$0.26	\$(0.18 )	\$0.48	\$(0.56 )
Diluted	\$0.26	\$(0.18 )	\$0.48	\$(0.56 )
Dividends per share	\$0.06	\$—	\$0.06	\$—

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

**RPC, INC. AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(In thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	<b>2017</b>	2016	<b>2017</b>	2016
Net income (loss)	\$57,334	\$(38,942 )	\$104,808	\$(120,139)
Other comprehensive income (loss):				
Pension adjustment and reclassification adjustment, net of taxes	135	126	405	380
Foreign currency translation	353	(144 )	584	712
Unrealized gain (loss) on securities, net of taxes	9	7	(12 )	(2 )
Comprehensive income (loss)	\$57,831	\$(38,953 )	\$105,785	\$(119,049)

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, 2017

(In thousands)

(Unaudited)

	Common Stock		Capital in Excess of	Retained	Accumulated Other Comprehensive	Total
	Shares	Amount	Par Value	Earnings	Loss	
Balance, December 31, 2016	217,489	\$21,749	\$ —	\$803,152	\$ (18,102)	) \$806,799
Stock issued for stock incentive plans, net	459	46	8,973	—	—	9,019
Stock purchased and retired	(1,363 )	(137 )	(8,973 )	(17,614 )	—	(26,724 )
Net income	—	—	—	104,808	—	104,808
Dividends	—	—	—	(13,026 )	—	(13,026 )
Pension adjustment, net of taxes	—	—	—	—	405	405
Foreign currency translation	—	—	—	—	584	584
Unrealized loss on securities, net of taxes	—	—	—	—	(12 )	) (12 )
Balance, September 30, 2017	216,585	\$21,658	\$ -	\$877,320	\$ (17,125)	) \$881,853

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, 2017 AND 2016

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	<b>2017</b>	<b>2016</b>
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 104,808	\$ (120,139 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and other non-cash charges	127,679	171,642
Stock-based compensation expense	9,019	8,065
Gain on disposition of assets, net	(5,779 )	(3,919 )
Deferred income tax benefit	(28,163 )	(31,677 )
Excess tax benefits for share-based payments	—	(360 )
(Increase) decrease in assets:		
Accounts receivable	(206,201 )	89,173
Income taxes receivable	54,033	1,488
Inventories	(4,730 )	17,843
Prepaid expenses	1,134	4,436
Other current assets	(2,037 )	(378 )
Other non-current assets	(3,135 )	(1,251 )
Increase (decrease) in liabilities:		
Accounts payable	47,151	(21,603 )
Income taxes payable	(728 )	(3,613 )
Accrued payroll and related expenses	13,088	(2,067 )
Accrued insurance expenses	125	636
Accrued state, local and other taxes	4,612	4,154
Other accrued expenses	(5,385 )	52
Pension liabilities	2,708	(2,121 )
Long-term accrued insurance expenses	783	(1,642 )
Other long-term liabilities	309	(14,159 )
Net cash provided by operating activities	109,291	94,560
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(75,016 )	(24,917 )

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Proceeds from sale of assets	10,532		7,141	
Net cash used for investing activities	(64,484	)	(17,776	)
<b>FINANCING ACTIVITIES</b>				
Payment of dividends	(13,026	)	—	
Debt issuance costs for notes payable to banks	—		(35	)
Excess tax benefits for share-based payments	—		360	
Cash paid for common stock purchased and retired	(26,724	)	(3,218	)
Net cash used for financing activities	(39,750	)	(2,893	)
Net increase in cash and cash equivalents	5,057		73,891	
Cash and cash equivalents at beginning of period	131,835		65,196	
Cash and cash equivalents at end of period	\$ 136,892		\$ 139,087	
Supplemental cash flows disclosure:				
Interest paid, net of amounts capitalized	\$ 192		\$ 373	
Income taxes paid (refund), net	\$ 39,775		\$ (39,333	)
Supplemental disclosure of noncash investing activities:				
Capital expenditures included in accounts payable	\$ 7,552		\$ 3,002	

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

## **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 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, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017.

The balance sheet at December 31, 2016 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, 2016.

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 (ASU) No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory.** Current requirements are to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximated normal profit margin. These amendments allow inventory to be measured at lower of cost or net realizable value and eliminates the market requirement. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted these provisions in the first quarter of 2017 on a prospective basis. The adoption of these provisions did not have a material impact on the Company's consolidated financial statements.

**ASU No. 2016-09, Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.** The amendments simplify several aspects of the accounting for share-based payment award transactions, requiring excess tax benefits and deficiencies to be recognized as a component of income tax expense rather than equity. This guidance also requires excess tax benefits and deficiencies to be presented as an operating activity on the statement of cash flows and allows an entity to make an accounting policy election to either estimate expected forfeitures or to account for them as they occur. The Company will continue to estimate expected forfeitures. The Company adopted these provisions in the first quarter of 2017 on a prospective basis. See Notes on Stock-Based Compensation and Income Taxes for the effect of adoption on the financial statements.

**RPC, INC. AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Recently Issued Accounting Pronouncements Not Yet Adopted:**

**To be adopted in 2018:**

**REVENUE RECOGNITION:**

The Financial Accounting Standards Board and International Accounting Standards Board issued their converged standard on revenue recognition in May 2014. The standard provides a comprehensive, industry-neutral revenue recognition model intended to increase financial statement comparability across companies and industries and significantly reduce the complexity inherent in today's revenue recognition guidance. The various ASUs related to **Revenue from Contracts with Customers (Topic 606)** have been listed below:

**ASU No. 2014-09**, 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