

RPC INC
Form 10-K
February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2018

Commission File No. 1-8726

RPC, INC.

Delaware **58-1550825**
(State of Incorporation) (I.R.S. Employer Identification No.)

2801 BUFORD HIGHWAY NE, SUITE 520

ATLANTA, GEORGIA 30329

(404) 321-2140

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

<i>Title of each class</i>	<i>Name of each exchange on which registered</i>
COMMON STOCK, \$0.10 PAR VALUE	NEW YORK STOCK EXCHANGE

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every interactive data file required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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.

Edgar Filing: RPC INC - Form 10-K

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

The aggregate market value of RPC, Inc. Common Stock held by non-affiliates on June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$814,644,000 based on the closing price on the New York Stock Exchange on June 29, 2018 of \$14.57 per share.

RPC, Inc. had 215,210,657 shares of Common Stock outstanding as of February 15, 2019.

Documents Incorporated by Reference

Portions of the Proxy Statement for the 2019 Annual Meeting of Stockholders of RPC, Inc. are incorporated by reference into Part III, Items 10 through 14 of this report.

PART I

Throughout this report, we refer to RPC, Inc., together with its subsidiaries, as “we,” “us,” “RPC” or “the Company.”

Forward-Looking Statements

Certain statements made in this report that are not historical facts are “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include, without limitation, statements that relate to our business strategy, plans and objectives, and our beliefs and expectations regarding future demand for our equipment and services and other events and conditions that may influence the oilfield services market and our performance in the future. Forward-looking statements made elsewhere in this report include without limitation statements regarding natural gas prices, production levels and drilling activities; our belief that oil-directed drilling will continue to represent the majority of the total drilling rig activity; our belief that the long-term demand outlook for natural gas is favorable and that natural gas-directed drilling will increase over the long-term; our continued belief in the long-term growth opportunities for our business; our expectation to continue to focus on the development of international business opportunities in current and other international markets; our expectations regarding acquisition targets in our industry; the adequacy of our insurance coverage; the impact of lawsuits, legal proceedings and claims on our business and financial condition; our belief that industry factors will continue to depress natural gas directed drilling activity during the near-term; our belief that U.S. oilfield activity will remain at its current level or decline during the near-term; our belief that the price of oil early in the first quarter of 2019 carries negative implications for RPC’s near-term activity level, revenues and earnings; our belief that oil-directed drilling will remain the majority of domestic drilling and that natural gas-directed drilling will remain a low percentage of U.S. domestic drilling in the near-term; our belief that indications early in 2019 are that the rig count will decline during the near-term; the fact that drilling and completion activities continue to be highly service-intensive and require a large amount of equipment and raw materials carries favorable implications for our activity levels; our belief that operators will complete many of previously drilled but not completed wells in the near-term and that this may provide potential revenue for our completion-directed services; higher industry efficiencies have caused the market for several oil completion services including pressure pumping to be oversupplied and that this development carries negative consequences for pricing of our services, utilization of our equipment and our financial results during the near-term; our belief that newly acquired and ordered equipment will provide acceptable financial returns when placed in service; our plans to undertake moderate fleet expansions which will allow us to maintain a strong balance sheet; our belief that declining activity levels may reduce the costs of providing our services and reduce logistical constraints; our expectations about contributions to the defined benefit pension plan in 2019; our ability to fund capital requirements in the future; the estimated amount of our capital expenditures and contractual obligations for future periods; our expectations to continue to pay regular quarterly cash dividends; our expectations regarding the costs of skilled labor and many of the raw materials used in providing our services; estimates made with respect to our critical accounting policies; the effect of new accounting standards; and the effect of the changes in foreign exchange rates on our consolidated results of operations or financial condition.

The words “may,” “will,” “expect,” “believe,” “anticipate,” “project,” “estimate,” and similar expressions generally identify forward-looking statements. Such statements are based on certain assumptions and analyses made by our management

in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes to be appropriate. We caution you that such statements are only predictions and not guarantees of future performance and that actual results, developments and business decisions may differ from those envisioned by the forward-looking statements. See “Risk Factors” contained in Item 1A. for a discussion of factors that may cause actual results to differ from our projections.

Item 1. Business

Organization and Overview

RPC is a Delaware corporation originally organized in 1984 as a holding company for several oilfield services companies and is headquartered in Atlanta, Georgia.

RPC provides a broad range of specialized oilfield services and equipment primarily to independent and major oil and gas companies engaged in the exploration, production and development of oil and gas properties throughout the United States, including the southwest, mid-continent, Gulf of Mexico, Rocky Mountain and Appalachian regions, and in selected international markets. RPC acts as a holding company for the following legal entity groupings: Cudd Energy Services, Thru Tubing Solutions and Patterson Services. Selected overhead including centralized support services and regulatory compliance are classified as Corporate. RPC is further organized into Technical Services and Support Services which are its operating segments. As of December 31, 2018, RPC had approximately 3,600 employees.

Business Segments

RPC manages its business as either services offered on the well site with equipment and personnel (Technical Services) or services and equipment offered off the well site (Support Services). The businesses under Technical Services generate revenues based on equipment, personnel operating the equipment and the materials utilized to provide the service. They are all managed, analyzed and reported based on the similarities of the operational characteristics and costs associated with providing the service. The businesses under Support Services are primarily able to generate revenues through equipment or services offered off the well site. During 2018, approximately three percent of RPC's consolidated revenues were generated from offshore operations in the U.S. Gulf of Mexico. In 2018, we also estimate that 85 percent of our revenues were related to drilling and production activities for oil, while 15 percent of revenues were related to drilling and production activities for natural gas.

Technical Services include RPC's oil and gas services that utilize people and equipment to perform value-added completion, production and maintenance services directly to a customer's well. The demand for these services is generally influenced by customers' decisions to invest capital toward initiating production in a new oil or natural gas well, improving production flows in an existing formation, or to address well control issues. This operating segment consists primarily of pressure pumping, downhole tools, coiled tubing, snubbing, nitrogen, well control, wireline and fishing. Customers include major multi-national and independent oil and gas producers, and selected nationally owned oil companies. The services offered under Technical Services are high capital and personnel intensive businesses. The common drivers of operational and financial success of these services include diligent equipment maintenance, strong logistical processes, and appropriately trained personnel who function well in a team environment. The Company considers all of these services to be closely integrated oil and gas well servicing businesses, and makes resource allocation and performance assessment decisions based on this operating segment as a whole across these various services. The principal markets for this business segment include the United States, including the southwest, mid-continent, Gulf of Mexico, Rocky Mountain and Appalachian regions, and selected international markets.

Support Services include all of the services that provide (i) equipment offered off the well site without RPC personnel and (ii) services that are provided in support of customer operations off the well site such as classroom and computer training, and other consulting services. The primary drivers of operational success for services and equipment provided off the well site without RPC personnel are offering safe, high quality and in-demand equipment appropriate

for the well design characteristics. The drivers of operational success for the other Support Services relate to meeting customer needs off the well site and competitive marketing of such services. The equipment and services offered include rental tools, drill pipe and related tools, pipe handling, pipe inspection and storage services, and oilfield training and consulting 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, mid-continent, Rocky Mountain and Appalachian regions and project work in selected international locations in the last three years, including primarily Canada, Latin America and the Middle East. Customers primarily include domestic operations of independent oil and gas producers and major multi-nationals and selected nationally owned oil companies.

A brief description of the primary services conducted within each of the operating segments follows:

Technical Services

Pressure Pumping. Pressure pumping services, which accounted for 55 percent of 2018 revenues, 62 percent of 2017 revenues and 46 percent of 2016 revenues are provided to customers throughout Texas, and the mid-continent and Rocky Mountain regions of the United States. We primarily provide these services to customers in order to enhance the initial production of hydrocarbons in formations that have low permeability. Pressure pumping services involve using complex, truck or skid-mounted equipment designed and constructed for each specific pumping service offered. The mobility of this equipment permits pressure pumping services to be performed in varying geographic areas. Principal materials utilized in pressure pumping operations include fracturing proppants, acid and bulk chemical additives. Generally, these items are available from several suppliers, and the Company utilizes more than one supplier for each item. Pressure pumping services offered include:

Fracturing — Fracturing services are performed to stimulate production of oil and natural gas by increasing the permeability of a formation. Fracturing is particularly important in shale formations, which have low permeability, and unconventional completion, because the formation containing hydrocarbons is not concentrated in one area and requires multiple fracturing operations. The fracturing process consists of pumping fluid gel and sometimes nitrogen into a cased well at sufficient pressure to fracture the formation at desired locations and depths. Sand, ceramics, or synthetic materials, which are often coated with a material to increase their resistance to crushing, are pumped into the fracture. When the pressure is released at the surface, the fluid gel returns to the well surface, but the proppant remains in the fracture, thus keeping it open so that oil and natural gas can flow through the fracture into the production tubing and ultimately to the well surface. In some cases, fracturing is performed in formations with a high amount of carbonate rock by an acid solution pumped under pressure without a proppant or with small amounts of proppant.

Acidizing — Acidizing services are also performed to stimulate production of oil and natural gas, but they are used in wells that have undergone formation damage due to the buildup of various materials that block the formation. Acidizing entails pumping large volumes of specially formulated acids into reservoirs to dissolve barriers and enlarge crevices in the formation, thereby eliminating obstacles to the flow of oil and natural gas. Acidizing services can also enhance production in limestone formations. Acid is also frequently used in the beginning of a fracturing operation.

Downhole Tools. Thru Tubing Solutions (“TTS”) accounted for 25 percent of 2018 revenues, 19 percent of 2017 revenues and 23 percent of 2016 revenues. TTS provides services and proprietary downhole motors, fishing tools and other specialized downhole tools and processes to operators and service companies in drilling and production operations, including casing perforation and bridge plug drilling at the completion stage of an oil or gas well. The services that TTS provides are especially suited for unconventional drilling and completion activities. TTS’ experience providing reliable tool services allows it to work in a pressurized environment with virtually any coiled tubing unit or snubbing unit.

Coiled Tubing. Coiled tubing services, which accounted for six percent of revenues in 2018, seven percent of revenues in 2017 and 10 percent of revenues in 2016, involve the injection of coiled tubing into wells to perform various applications and functions for use principally in well-servicing operations and to facilitate completion of horizontal wells. Coiled tubing is a flexible steel pipe with a diameter of less than four inches manufactured in continuous lengths of thousands of feet and wound or coiled around a large reel. It can be inserted through existing production tubing and used to perform workovers without using a larger, costlier workover rig. Principal advantages of employing coiled tubing in a workover operation include: (i) not having to “shut-in” the well during such operations, (ii) the ability to reel continuous coiled tubing in and out of a well significantly faster than conventional pipe, (iii) the ability to direct fluids into a wellbore with more precision, and (iv) enhanced access to remote or offshore fields due to the smaller size and mobility of a coiled tubing unit compared to a workover rig. Increasingly, coiled tubing units are also used to support completion activities in directional and horizontal wells. Such completion activities usually require multiple entrances in a wellbore in order to complete multiple fractures during a pressure pumping operation. A coiled tubing unit can accomplish this type of operation because its flexibility allows it to be steered in a direction other than vertical, which is necessary in this type of wellbore. At the same time, the strength of the coiled tubing string allows various types of tools or motors to be conveyed into the well effectively. The uses for coiled tubing in directional and horizontal wells have been enhanced by improved fabrication techniques and higher-diameter coiled

tubing which allows coiled tubing units to be used effectively over greater distances, thus allowing them to function in more of the completion activities currently taking place in the U.S. domestic market. There are several manufacturers of flexible steel pipe used in coiled tubing services, and the Company believes that its sources of supply are adequate.

Snubbing. Snubbing (also referred to as hydraulic workover services), which accounted for one percent of revenues in 2018, two percent of revenues in 2017 and three percent of revenues in 2016, involves using a hydraulic workover rig that permits an operator to repair damaged casing, production tubing and downhole production equipment in a high-pressure environment. A snubbing unit makes it possible to remove and replace downhole equipment while maintaining pressure on the well. Customers benefit because these operations can be performed without removing the pressure from the well, which stops production and can damage the formation, and because a snubbing unit can perform many applications at a lower cost than other alternatives. Because this service involves a very hazardous process that entails high risk, the snubbing segment of the oil and gas services industry is limited to a relative few operators who have the experience and knowledge required to perform such services safely and efficiently. Increasingly, snubbing units are used for unconventional completions at the outer reaches of long wellbores which cannot be serviced by coiled tubing because coiled tubing has a more limited range than drill pipe conveyed by a snubbing unit.

Nitrogen. Nitrogen accounted for three percent of revenues in 2018, two percent of revenues in 2017 and five percent of revenues in 2016. There are a number of uses for nitrogen, an inert, non-combustible element, in providing services to oilfield customers and industrial users outside of the oilfield. For our oilfield customers, nitrogen can be used to clean drilling and production pipe and displace fluids in various drilling applications. Increasingly, it is used as a displacement medium to increase production in older wells in which production has depleted. It also can be used to create a fire-retardant environment in hazardous blowout situations and as a fracturing medium for our fracturing service. In addition, nitrogen can be complementary to our snubbing and coiled tubing services, because it is a non-corrosive medium and is frequently injected into a well using coiled tubing. Nitrogen is complementary to our pressure pumping service as well, because foam-based nitrogen stimulation is appropriate in certain sensitive formations in which the fluids used in fracturing or acidizing would damage a customer's well.

For non-oilfield industrial users, nitrogen can be used to purge pipelines and create a non-combustible environment. RPC stores and transports nitrogen and has a number of pumping unit configurations that inject nitrogen in its various applications. Some of these pumping units are set up for use on offshore platforms or inland waters. RPC purchases its nitrogen in liquid form from several suppliers and believes that these sources of supply are adequate.

Well Control. Cudd Energy Services specializes in responding to and controlling oil and gas well emergencies, including blowouts and well fires, domestically and internationally. In connection with these services, Cudd Energy Services, along with Patterson Services, has the capacity to supply the equipment, expertise and personnel necessary to restore affected oil and gas wells to production. During the past several years, the Company has responded to numerous well control situations in the domestic U.S. oilfield and in various international locations.

The Company's professional firefighting staff has many years of aggregate industry experience in responding to well fires and blowouts. This team of experts responds to well control situations where hydrocarbons are escaping from a wellbore, regardless of whether a fire has occurred. In the most critical situations, there are explosive fires, the destruction of drilling and production facilities, substantial environmental damage and the loss of hundreds of thousands of dollars per day in well operators' production revenue. Since these events ordinarily arise from equipment failures or human error, it is impossible to predict accurately the timing or scope of this work. Additionally, less critical events frequently occur in connection with the drilling of new wells in high-pressure reservoirs. In these situations, the Company is called upon to supervise and assist in the well control effort so that drilling operations can resume as promptly as safety permits.

Wireline Services. Wireline is classified into two types of services: slick or braided line and electric line. In both, a spooled wire is unwound and lowered into a well, conveying various types of tools or equipment. Slick or braided line services use a non-conductive line primarily for jarring objects into or out of a well, as in fishing or plug-setting operations. Electric line services lower an electrical conductor line into a well allowing the use of electrically-operated tools such as perforators, bridge plugs and logging tools. Wireline services can be an integral part of the plug and abandonment process near the end of the life cycle of a well.

Pump Down Services. Pump down services are an integral part of the well completion process and are critical in multiple-stage, unconventional well completions which use various types of bridge plugs and perforation techniques. Pump down services use fluids and low-capacity pressure pumping equipment, and work in coordination with wireline services, to place completion equipment at the desired location in a well bore. This process is repeated for each stage, moving from the most distant end of the wellbore to the end that is closest to the wellhead.

Fishing. Fishing involves the use of specialized tools and procedures to retrieve lost equipment from a well drilling operation and producing wells. It is a service required by oil and gas operators who have lost equipment in a well. Oil and natural gas production from an affected well typically declines until the lost equipment can be retrieved. In some cases, the Company creates customized tools to perform a fishing operation. The customized tools are maintained by the Company after the particular fishing job for future use if a similar need arises.

Support Services

Rental Tools. Rental tools accounted for three percent of revenues in 2018, two percent of revenues in 2017 and three percent of revenues in 2016. The Company rents specialized equipment for use with onshore and offshore oil and gas well drilling, completion and workover activities. The drilling and subsequent operation of oil and gas wells generally require a variety of equipment. The equipment needed is in large part determined by the geological features of the production zone and the size of the well itself. As a result, operators and drilling contractors often find it more economical to supplement their tool and tubular assets with rental items instead of owning a complete set of assets. The Company's facilities are strategically located to serve the major staging points for oil and gas activities in Texas, the Gulf of Mexico, mid-continent region, Appalachian region and the Rocky Mountains.

Patterson Rental Tools offers a broad range of rental tools including:

Blowout Preventors	Diverters
High Pressure Manifolds and Valves	Drill Pipe
Hevi-wate Drill Pipe	Drill Collars
Tubing	Handling Tools
Production Related Rental Tools	Coflexip® Hoses
Pumps	Wear Knot™ Drill Pipe

Oilfield Pipe Inspection Services, Pipe Management and Pipe Storage. Pipe inspection services include Full Body Electromagnetic and Phased Array Ultrasonic inspection of pipe used in oil and gas wells. These services are provided at both the Company's inspection facilities and at independent tubular mills in accordance with negotiated sales and/or service contracts. Our customers are major oil companies and steel mills, for which we provide in-house inspection services, inventory management and process control of tubing, casing and drill pipe. Our locations in Channelview, Texas and Morgan City, Louisiana are equipped with large capacity cranes, specially designed forklifts and a computerized inventory system to serve a variety of storage and handling services for both oilfield and non-oilfield customers.

Well Control School. Well Control School provides industry and government accredited training for the oil and gas industry both in the United States and in limited international locations. Well Control School provides training in various formats including conventional classroom training, interactive computer training including training delivered over the internet, and mobile simulator training.

Energy Personnel International. Energy Personnel International provides drilling and production engineers, well site supervisors, project management specialists, and workover and completion specialists on a consulting basis to the oil and gas industry to meet customers' needs for staff engineering and well site management.

Refer to Note 13 in the Notes to the Consolidated Financial Statements for additional financial information on our business segments.

Industry

United States. RPC provides its services to its domestic customers through a network of facilities strategically located to serve oil and gas drilling and production activities of its customers in Texas, the Gulf of Mexico, the mid-continent, the southwest, the Rocky Mountains and the Appalachian regions. Demand for RPC's services in the U.S. tends to be extremely volatile and fluctuates with current and projected price levels of oil and natural gas and activity levels in the oil and gas industry. Customer activity levels are influenced by their decisions about capital investment toward the development and production of oil and gas reserves.

Due to aging oilfields and lower-cost sources of oil internationally, the drilling rig count in the U.S. has declined by approximately 77 percent from its peak in 1981. However, due to continuously enhanced rig and other technologies, more wells are drilled during periods of strong industry activity, and these wells are increasingly productive. For these reasons, the domestic production of natural gas rose to record levels in the third quarter of 2015, and domestic production of crude oil in the third quarter of 2015 reached its highest level since the third quarter of 1971. With the decline in domestic drilling and completion activities beginning in early 2015, domestic production of both natural gas and oil began to decline during the third and fourth quarters of 2015, although production continues to remain high in comparison to historical levels. Oil and gas industry activity levels have historically been volatile, experiencing multiple cycles, including six down cycle troughs between 1981 and 2016, with May 2016 marking the lowest U.S. domestic rig count in U.S. oilfield history. The rig count during the peak of the most recent cycle occurred at the end of the third quarter of 2014, and began to decline sharply during the fourth quarter of 2014. The rig count continued to decline in 2015 and 2016, until June of 2016 when it stabilized and began to increase. Early in 2019, the rig count had recovered by approximately 159 percent from the historical low set during the second quarter of 2016, but was still approximately 46 percent lower than the cyclical peak in the third quarter of 2014.

Because of the increased efficiency of drilling rigs, the Company also monitors well completions in the U.S. domestic oilfield. Well completions are particularly important to RPC because the majority of its services are utilized during the completion stage of an oil or gas well's life cycle, so they are an important indicator of the demand for RPC's services. As reported by the U.S. Energy Information Administration during the first quarter of 2019, annual well completions fell from a cyclical peak of 21,370 in 2014 to 8,106 in 2016. Between 2016 and 2018, annual well completions increased by 6,456 or 79.7 percent. In spite of the increase in well completions during the past two years, annual well completions in 2018 were 31.9 percent lower than the 2014 cyclical peak.

The fluctuations in domestic drilling activity since the third quarter of 2014 peak are consistent with global supply of and demand for oil, the domestic supply of and demand for natural gas, U.S. domestic storage levels of oil and natural gas, fluctuations in the value of the U.S. dollar on world currency markets, and projected near-term economic growth. During 2015 and into the first quarter of 2016, the price of oil fell by approximately 78 percent from the cyclical peak in the third quarter of 2014. From its low price in early 2016, the price of oil had risen approximately 155 percent to its recent cyclical peak early in the fourth quarter of 2018. Between this cyclical peak and early in the first quarter of 2019, the price of oil fell by approximately 28 percent. RPC believes that the increase in the price of oil between 2016 and 2018 was due to increasing global demand and a perceived moderation of global supply, and that the recent decline in the price of oil was due to a change in sentiment regarding supply and demand. The average price of natural gas increased by approximately 6.4 percent during 2018 as compared with 2017 and early in the first quarter of 2019, the price of natural gas was approximately 18 percent lower than the price at the end of 2018. RPC does not believe that the current price of natural gas is sufficient to encourage natural gas-directed drilling, and we note that many oil-directed wells produce a great deal of natural gas and natural gas liquids as well. In addition to oil and natural gas, the price of natural gas liquids plays a minor role in determining our customers' activity levels, since it is produced in many of the shale resource plays which also produce oil, and production of various natural gas liquids has increased to a level comparable to that of natural gas. During 2018 the average price of natural gas liquids increased by approximately 15 percent compared with 2017. Early in the first quarter of 2019, the price of natural gas liquids increased by approximately 29 percent compared to the average price in 2018. During 2018, the price of oil was high enough to encourage increased drilling and production activity, but the unexpected and significant drop in the price of oil during the fourth quarter of 2018 has caused many of RPC's customers to delay or curtail their drilling and completion plans for the near term. The fluctuations in the prices of these commodities, and in particular, the extreme volatility in the price of oil, significantly impact RPC's financial results.

From 2001 to 2009, gas drilling rigs represented over 80 percent of the drilling rig count. In 2010, the percentage of drilling rigs drilling for natural gas began to decline, and by early in the first quarter of 2015 had fallen to approximately 18 percent of total drilling activity. In absolute terms, the natural gas drilling rig count in the third quarter of 2016 was the lowest natural gas drilling rig count ever recorded. During 2018 and early into the first quarter of 2019, the natural gas drilling rig count as a percentage of the total rig count remained steady at approximately 18 percent of total drilling. Although the demand for natural gas has remained stable, the price of natural gas has fallen in recent years due to increased domestic reserves, productivity of new wells, and high associated natural gas production from oil-directed wells. In spite of these unfavorable near-term dynamics, the long-term demand outlook for natural gas is still favorable because, unlike oil, foreign imports of natural gas do not compete with domestic production to a meaningful degree, and for several years, the United States has exported increasing volumes of natural gas to other countries. We anticipate that oil-directed drilling will continue to represent the majority of the total drilling rig count during the near term. Over the long term, we believe that natural gas-directed drilling will increase due to the lack of

natural gas production from oil-directed drilling and increased natural gas demand from U.S. exports of natural gas in addition to changes in demand due to increased use of natural gas as a transportation fuel or for other purposes. We continue to believe in the long-term growth opportunities for our business due to the continued high demand for hydrocarbons generally and the growing production of oil in the domestic U.S. market in particular. Furthermore, we note that the techniques used to extract oil and natural gas in the U.S. domestic market increasingly require the types of services that RPC provides to its customers.

Unconventional wells generate a higher demand for RPC's services because they are difficult and costly to complete. They comprise the majority of U.S. domestic drilling and during the fourth quarter of 2018 and early in the first quarter of 2019, have reached a historical high of approximately 94 percent of total drilling. Because they are drilled through a typically narrow and relatively impermeable formation such as shale, they require additional stimulation when they are completed. Also, many of these formations require high pumping rates of stimulation fluids under high pressures, which in turn require a great deal of pressure pumping horsepower on location to complete the well. Furthermore, since they are not drilled in a straight vertical direction from the Earth's surface, they require tools and drilling mechanisms that are flexible, rather than rigid, and can be steered once they are downhole. Specifically, these types of wells require RPC's pressure pumping and coiled tubing services, as well as our downhole tools and services.

International. RPC has historically operated in several countries outside of the United States, and international revenues accounted for five percent of RPC's consolidated revenues in 2018, four percent in 2017 and seven percent in 2016. RPC's allocation of growth capital over the last several years have emphasized domestic rather than international expansion because of higher domestic activity levels and expected financial returns. International revenues increased 61.9 percent in 2018 compared to the prior year primarily due to higher customer activity levels in Argentina and to a lesser extent, Mexico and Pakistan, partially offset by lower activity in Gabon. During 2018, RPC provided downhole motors and tools in Argentina, Canada, Mexico and Oman, as well as rental tools in Pakistan. We also provided snubbing services in Gabon. We continue to focus on the selected development of international opportunities in these and other markets, although we believe that it will continue to be less than ten percent of total revenues in 2019.

RPC provides services to its international customers through branch locations or wholly owned foreign subsidiaries. The international market is prone to political uncertainties, including the risk of civil unrest and conflicts. However, due to the significant investment requirement and complexity of international projects, customers' drilling decisions relating to such projects tend to be evaluated and monitored with a longer-term perspective with regard to oil and natural gas pricing, and therefore have the potential to be more stable than most U.S. domestic operations. Additionally, the international market is dominated by major oil companies and national oil companies which tend to have different objectives and more operating stability than the typical independent oil and gas producer in the U.S. Predicting the timing and duration of contract work is not possible. Refer to Note 13 in the Notes to Consolidated Financial Statements for further information on our international operations.

Growth Strategies

RPC's primary objective is to generate excellent long-term returns on investment through the effective and conservative management of its invested capital to generate strong cash flow. This objective continues to be pursued through strategic investments and opportunities designed to enhance the long-term value of RPC while improving market share, product offerings and the profitability of existing businesses. Growth strategies are focused on selected customers and markets in which we believe there exist opportunities for higher growth, customer and market penetration, or enhanced returns achieved through consolidations or through providing proprietary value-added equipment and services. RPC intends to focus on specific market segments in which it believes that it has a competitive advantage and on potential large customers who have a long-term need for our services in markets in which we operate.

RPC seeks to expand its service capabilities through a combination of internal growth, acquisitions, joint ventures and strategic alliances. Historically, we have found that we generate higher financial returns from organic growth with our services and geographical locations in which we have experience. Because of the fragmented nature of the oil and gas services industry, RPC believes a number of acquisition opportunities exist, and we frequently consider such opportunities. We have consummated relatively few acquisitions, however, due to high seller valuation expectations and the risk of integrating acquired businesses into our existing operations. We will continue to consider the acquisitions of existing businesses but will also continue to maintain a conservative capital structure, which may limit

our ability to consummate large transactions.

RPC has a revolving credit facility which can be used to fund working capital requirements. The borrowing base for this credit facility is \$125 million less the amount of any outstanding letters of credit. There was no outstanding balance on this credit facility as of December 31, 2018. Our capital structure is more conservative than that of many of our peers.

Customers

Demand for RPC's services and equipment depends primarily upon the number of oil and natural gas wells being drilled, the depth and drilling conditions of such wells, the number of well completions and the level of production enhancement activity worldwide. RPC's principal customers consist of major and independent oil and natural gas producing companies. During 2018, RPC provided oilfield services to several hundred customers. Of these customers, there was no customer in 2018 or 2017 that accounted for more than 10 percent of revenues.

Sales are generated by RPC's sales force and through referrals from existing customers. We monitor closely the financial condition of these customers, their capital expenditure plans, and other indications of their drilling and completion activities. Due to the short lead time between ordering services or equipment and providing services or delivering equipment, there is no significant sales backlog.

Competition

RPC operates in highly competitive areas of the oilfield services industry. We sell our equipment and services in highly competitive markets, and the revenues and earnings generated are affected by changes in prices for our services, fluctuations in the level of customer activity in major markets, general economic conditions and governmental regulation. RPC competes with many large and small oilfield industry competitors, including the largest integrated oilfield services companies. During the oilfield downturn of 2015 and 2016, a number of smaller oilfield services companies as well as several of our publicly traded peers reduced the scope of their operations or became insolvent. During 2017, however, an improving industry environment and the positive outlook on the industry from the financial markets facilitated the formation of new companies and allowed existing companies to expand their operations. RPC believes that these expanded or newly formed companies increased competitive pressures during the near term, since they began to provide services to our existing customers at lower prices, and hired experienced personnel from more established companies such as RPC. Pricing for our services improved significantly during 2017, but began to decline during the fourth quarter of 2017 and throughout 2018. RPC believes that the principal competitive factors in the market areas that it serves are product availability and quality of our equipment and raw materials used to provide our services, service quality, reputation for safety and technical proficiency, and price.

The oil and gas services industry includes dominant global competitors including, among others, Halliburton Energy Services Group, a division of Halliburton Company, Baker Hughes, a GE Company, and Schlumberger Ltd. The industry also includes a number of other publicly traded peers whose operations are more similar to RPC, including Basic Energy Services, C&J Energy Services, Keane Group, Inc., Liberty Oilfield Services, Mammoth Energy Services, Inc., NCS Multistage Holdings, Inc., Nine Energy Service, Patterson-UTI Energy, Inc., ProPetro Holding Corporation and Superior Energy Services, as well as numerous smaller, locally owned competitors.

Facilities/Equipment

RPC's equipment consists primarily of oil and gas services equipment used either in servicing customer wells or provided on a rental basis for customer use. Substantially all of this equipment is Company owned. RPC purchases oilfield service equipment from a limited number of manufacturers. These manufacturers may not be able to meet our requests for timely delivery during periods of high demand which may result in delayed deliveries of equipment and higher prices for equipment.

RPC owns and leases regional and district facilities from which its oilfield services are provided to land-based and offshore customers. RPC's principal executive offices in Atlanta, Georgia are leased. The Company has two primary administrative buildings, one leased facility in The Woodlands, Texas that includes the Company's operations, engineering, sales and marketing headquarters, and one owned facility in Houma, Louisiana that includes certain administrative functions. RPC believes that its facilities are adequate for its current operations. For additional

information with respect to RPC's lease commitments, see Note 10 of the Notes to Consolidated Financial Statements.

Governmental Regulation

RPC's business is affected by state, federal and foreign laws and other regulations relating to the oil and gas industry, as well as laws and regulations relating to worker safety and environmental protection. RPC cannot predict the level of enforcement of existing laws and regulations or how such laws and regulations may be interpreted by enforcement agencies or court rulings, whether additional laws and regulations will be adopted, or the effect such changes may have on it, its businesses or financial condition.

In addition, our customers are affected by laws and regulations relating to the exploration and production of natural resources such as oil and natural gas. These regulations are subject to change, and new regulations may curtail or eliminate our customers' activities. We cannot determine the extent to which new legislation may impact our customers' activity levels, and ultimately, the demand for our services.

Intellectual Property

RPC uses several patented items in its operations which management believes are important, but are not indispensable, to RPC's success. Although RPC anticipates seeking patent protection when possible, it relies to a greater extent on the technical expertise and know-how of its personnel to maintain its competitive position.

Availability of Filings

RPC makes available, free of charge, on its website, www.rpc.net, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports on the same day they are filed with the Securities and Exchange Commission.

Item 1A. Risk Factors

Demand for our equipment and services is affected by the volatility of oil and natural gas prices.

Oil and natural gas prices affect demand throughout the oil and gas industry, including the demand for our equipment and services. Our business depends in large part on the conditions of the oil and gas industry, and specifically on the capital investments of our customers related to the exploration and production of oil and natural gas. When these capital investments decline, our customers' demand for our services declines.

The price of oil, a world-wide commodity, is affected by, among other things, the potential of armed conflict in politically unstable areas such as the Middle East as well as the actions of OPEC, an oil cartel which controls slightly less than 40 percent of global oil production. OPEC's actions have historically been unpredictable and can contribute to the volatility of the price of oil on the world market.

Although the production sector of the oil and gas industry is less immediately affected by changing prices, and, as a result, less volatile than the exploration sector, producers react to declining oil and gas prices by curtailing capital spending, which would adversely affect our business. A prolonged low level of customer activity in the oil and gas industry adversely affects the demand for our equipment and services and our financial condition and results of operations.

Reliance upon a large customer may adversely affect our revenues and operating results.

At times our business has had a concentration of one or more major customers. There was no customer that accounted for more than 10 percent of the Company's revenues in 2018, 2017 or 2016. In addition, there was no customer as of December 31, 2018 or 2017 that accounted for more than 10 percent of accounts receivable. The reliance on a large

customer for a significant portion of our total revenues exposes us to the risk that the loss or reduction in revenues from this customer, which could occur unexpectedly, could have a material and disproportionate adverse impact upon our revenues and operating results.

Our business depends on capital spending by our customers, many of whom rely on outside financing to fund their operations.

Many of our customers rely on their ability to raise equity capital and debt financing from capital markets to fund their operations. Their ability to raise outside capital depends upon, among other things, the availability of capital, near-term operating prospects of oil and gas companies, current and projected prices of oil and natural gas, and relative attractiveness of competing investments for available investment capital. These factors are outside of our control, and in the event our customers cannot continue to raise outside capital to fund their operations, RPC's financial results would be negatively impacted.

Our business depends on capital spending by our customers, many of whom rely on outside financing to fund their operations.

Many oil and gas companies do not generate sufficient operating cash flow to cover their capital expenditures. Because of this deficiency, many of our customers rely on their ability to raise equity capital and debt financing from capital markets in order to continue their operations. Their ability to raise outside capital to fund their operations depends upon, among other things, the availability of capital, near-term operating prospects of oil and gas companies, current and projected prices of oil and natural gas, and attractiveness of competing investments for available investment capital. These factors are outside of our control, and in the event that our customers cannot continue to raise outside capital to fund their operations, RPC's financial results would be negatively impacted.

RPC's success will depend on its key personnel, and the loss of any key personnel may affect its revenues.

RPC's success will depend to a significant extent on the continued service of key management personnel. The loss or interruption of the services of any senior management personnel or the inability to attract and retain other qualified management, sales, marketing and technical employees could disrupt RPC's operations and cause a decrease in its revenues and profit margins.

We may be unable to compete in the highly competitive oil and gas industry in the future.

We operate in highly competitive areas of the oilfield services industry. The equipment and services in our industry segments are sold in highly competitive markets, and our revenues and earnings have in the past been affected by changes in competitive prices, fluctuations in the level of activity in major markets and general economic conditions. We compete with the oil and gas industry's many large and small industry competitors, including the largest integrated oilfield service providers. We believe that the principal competitive factors in the market areas that we serve are product and service quality and availability, reputation for safety, technical proficiency and price. Although we believe that our reputation for safety and quality service is good, we cannot assure you that we will be able to maintain our competitive position.

We may be unable to identify or complete acquisitions.

Acquisitions have been and may continue to be a key element of our business strategy. We cannot assure you that we will be able to identify and acquire acceptable acquisition candidates on terms favorable to us in the future. We may be required to incur substantial indebtedness to finance future acquisitions and also may issue equity securities in connection with such acquisitions. The issuance of additional equity securities could result in significant dilution to our stockholders. We cannot assure you that we will be able to integrate successfully the operations and assets of any acquired business with our own business. Any inability on our part to integrate and manage the growth from acquired businesses could have a material adverse effect on our results of operations and financial condition.

Our operations are affected by adverse weather conditions.

Our operations are directly affected by the weather conditions in several domestic regions, including the Gulf of Mexico, the Gulf Coast, the mid-continent, the Rocky Mountains and the Appalachian region. Hurricanes and other storms prevalent in the Gulf of Mexico and along the Gulf Coast during certain times of the year may also affect our operations, and severe hurricanes may affect our customers' activities for a period of several years. While the impact of these storms may increase the need for certain of our services over a longer period of time, such storms can also decrease our customers' activities immediately after they occur. Such hurricanes may also affect the prices of oil and natural gas by disrupting supplies in the short term, which may increase demand for our services in geographic areas not damaged by the storms. Prolonged rain, snow or ice in many of our locations may temporarily prevent our crews and equipment from reaching customer work sites. Due to seasonal differences in weather patterns, our crews may operate more days in some periods than others. Accordingly, our operating results may vary from quarter to quarter, depending on the impact of these weather conditions.

Our ability to attract and retain skilled workers may impact growth potential and profitability.

Our ability to be productive and profitable will depend substantially on our ability to attract and retain skilled workers. Our ability to expand our operations is, in part, impacted by our ability to increase our labor force. A significant increase in the wages paid by competing employers could result in a reduction in our skilled labor force, increases in the wage rates paid by us, or both. If either of these events occurred, our capacity and profitability could be diminished, and our growth potential could be impaired.

Our business has potential liability for litigation, personal injury and property damage claims assessments.

Our operations involve the use of heavy equipment and exposure to inherent risks, including blowouts, explosions and fires. If any of these events were to occur, it could result in liability for personal injury and property damage, pollution or other environmental hazards or loss of production. Litigation may arise from a catastrophic occurrence at a location where our equipment and services are used. This litigation could result in large claims for damages. The frequency and severity of such incidents will affect our operating costs, insurability and relationships with customers, employees and regulators. These occurrences could have a material adverse effect on us. We maintain what we believe is prudent insurance protection. We cannot assure you that we will be able to maintain adequate insurance in the future at rates we consider reasonable or that our insurance coverage will be adequate to cover future claims and assessments that may arise.

Our operations may be adversely affected if we are unable to comply with regulations and environmental laws.

Our business is significantly affected by stringent environmental laws and other regulations relating to the oil and gas industry and by changes in such laws and the level of enforcement of such laws. We are unable to predict the level of enforcement of existing laws and regulations, how such laws and regulations may be interpreted by enforcement agencies or court rulings, or whether additional laws and regulations will be adopted. The adoption of laws and regulations curtailing exploration and development of oil and gas fields in our areas of operations for economic, environmental or other policy reasons would adversely affect our operations by limiting demand for our services. We also have potential environmental liabilities with respect to our offshore and onshore operations, and could be liable for cleanup costs, or environmental and natural resource damage due to conduct that was lawful at the time it occurred, but is later ruled to be unlawful. We also may be subject to claims for personal injury and property damage due to the generation of hazardous substances in connection with our operations. We believe that our present operations substantially comply with applicable federal and state pollution control and environmental protection laws and regulations. We also believe that compliance with such laws has had no material adverse effect on our operations to date. However, such environmental laws are changed frequently. We are unable to predict whether environmental laws will, in the future, materially adversely affect our operations and financial condition. Penalties for noncompliance with these laws may include cancellation of permits, fines, and other corrective actions, which would negatively affect our future financial results.

Compliance with federal and state regulations relating to hydraulic fracturing could increase our operating costs, cause operational delays, and could reduce or eliminate the demand for our pressure pumping services.

RPC's pressure pumping services are the subject of continuing federal, state and local regulatory oversight. This scrutiny is prompted in part by public concern regarding the potential impact on drinking and ground water and other environmental issues arising from the growing use of hydraulic fracturing. Among these regulatory entities is the White House Council on Environmental Quality, which coordinated a review of hydraulic fracturing practices. In addition, a committee of the United States House of Representatives investigated hydraulic fracturing practices and publicized information regarding the materials used in hydraulic fracturing. The U.S. Environmental Protection Agency (EPA) has also undertaken a study of the environmental impact of hydraulic fracturing practices. In the second quarter of 2015, the EPA issued a report which concluded that hydraulic fracturing had not caused a measureable impact on drinking water sources in the U.S. While this conclusion and other conclusions from similar efforts are favorable for our industry, we are unable to predict whether future scrutiny of RPC's pressure pumping business and any resulting regulatory change will impact our business through increased operational costs, operational delays, or a reduction in demand for hydraulic fracturing services.

Our international operations could have a material adverse effect on our business.

Our operations in various international markets including, but not limited to, Africa, Canada, Argentina, China, Mexico, Eastern Europe, Latin America and the Middle East are subject to risks. These risks include, but are not limited to, political changes, expropriation, currency restrictions and changes in currency exchange rates, taxes, boycotts and other civil disturbances. The occurrence of any one of these events could have a material adverse effect on our operations.

Our common stock price has been volatile.

Historically, the market price of common stock of companies engaged in the oil and gas services industry has been highly volatile. Likewise, the market price of our common stock has varied significantly in the past.

Our management has a substantial ownership interest, and public stockholders may have no effective voice in the management of the Company.

The Company has elected the “Controlled Corporation” exemption under Section 303A of the New York Stock Exchange (“NYSE”) Listed Company Manual. The Company is a “Controlled Corporation” because 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. As a “Controlled Corporation,” the Company need not comply with certain NYSE rules including those requiring a majority of independent directors.

RPC’s executive officers, directors and their affiliates hold directly or through indirect beneficial ownership, in the aggregate, 74 percent of RPC’s outstanding shares of common stock. As a result, these stockholders effectively control the operations of RPC, including the election of directors and approval of significant corporate transactions such as acquisitions and other matters requiring stockholder approval. This concentration of ownership could also have the effect of delaying or preventing a third party from acquiring control over the Company at a premium.

Our management has a substantial ownership interest, and the availability of the Company’s common stock to the investing public may be limited.

The availability of RPC’s common stock to the investing public may be limited to those shares not held by the executive officers, directors and their affiliates, which could negatively impact RPC’s stock trading prices and affect the ability of minority stockholders to sell their shares. Future sales by executive officers, directors and their affiliates of all or a portion of their shares could also negatively affect the trading price of our common stock.

Provisions in RPC's certificate of incorporation and bylaws may inhibit a takeover of RPC.

RPC's certificate of incorporation, bylaws and other documents contain provisions including advance notice requirements for stockholder proposals and staggered terms for the Board of Directors. These provisions may make a tender offer, change in control or takeover attempt that is opposed by RPC's Board of Directors more difficult or expensive.

Some of our equipment and several types of materials used in providing our services are available from a limited number of suppliers.

We purchase equipment provided by a limited number of manufacturers who specialize in oilfield service equipment. During periods of high demand, these manufacturers may not be able to meet our requests for timely delivery, resulting in delayed deliveries of equipment and higher prices for equipment. There are a limited number of suppliers for certain materials used in pressure pumping services, our largest service line. While these materials are generally available, supply disruptions can occur due to factors beyond our control. Such disruptions, delayed deliveries, and higher prices may limit our ability to provide services, or increase the costs of providing services, which could reduce our revenues and profits.

We have used outside financing in prior years to accomplish our growth strategy, and outside financing may become unavailable or may be unfavorable to us.

Our business requires a great deal of capital in order to maintain our equipment and increase our fleet of equipment to expand our operations, and we have access to our credit facility to fund our necessary working capital and equipment requirements. Our credit facility, as amended July 26, 2018, provides a borrowing base of \$125 million less the amount of any outstanding letters of credit, and bears interest at a floating rate, which exposes us to market risks as interest rates rise. If our existing capital resources become unavailable, inadequate or unfavorable for purposes of funding our capital requirements, we would need to raise additional funds through alternative debt or equity financings to maintain our equipment and continue our growth. Such additional financing sources may not be available when we need them, or may not be available on favorable terms. If we fund our growth through the issuance of public equity, the holdings of stockholders will be diluted. If capital generated either by cash provided by operating activities or outside financing is not available or sufficient for our needs, we may be unable to maintain our equipment, expand our fleet of equipment, or take advantage of other potentially profitable business opportunities, which could reduce our future revenues and profits.

Our operations are subject to cyber-attacks that could have a material adverse effect on our business, consolidated results of operations and consolidated financial condition.

Our operations are increasingly dependent on digital technologies and services. We use these technologies for internal purposes, including data storage, processing and transmissions, as well as in our interactions with customers and suppliers. Digital technologies are subject to the risk of cyber-attacks. If our systems for protecting against cybersecurity risks prove to be insufficient, we could be adversely affected by, among other things, loss of or damage to intellectual property, proprietary or confidential information, or customer, supplier, or employee data, as well as, interruption of our business operations, and increased costs required to prevent, respond to, or mitigate cybersecurity attacks. These risks could harm our reputation and our relationships with customers, suppliers, employees and other third parties, and may result in claims against us. These risks could have a material adverse effect on our business, consolidated results of operations and consolidated financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

RPC owns or leases approximately 120 offices and operating facilities. The Company leases approximately 18,600 square feet of office space in Atlanta, Georgia that serves as its headquarters, a portion of which is allocated and charged to Marine Products Corporation. See “Related Party Transactions” contained in Item 7. As of December 31, 2018, the lease agreement on the headquarters is effective through October 2020. Effective January 2019, the Company signed a new lease agreement for the office space at its headquarters that has substantially similar terms as the previous lease and extends the term of the lease from October 2020 to May 2031. RPC believes its current operating facilities are suitable and adequate to meet current and reasonably anticipated future needs. Descriptions of the major facilities used in our operations are as follows:

Owned Locations

Broussard, Louisiana — Operations, sales and equipment storage yards

Elk City, Oklahoma — Operations, sales and equipment storage yards

Houma, Louisiana — Administrative office

Houston, Texas — Pipe storage terminal and inspection sheds

Kilgore, Texas — Operations, sales and equipment storage yards

Odessa, Texas — Operations, sales and equipment storage yards

Rock Springs, Wyoming — Operations, sales and equipment storage yards

Vernal, Utah — Operations, sales and equipment storage yards

Vilonia, Arkansas — Maintenance and rebuild facilities

Williston, North Dakota — Operations, sales and equipment storage yards

Leased Locations

Hobbs, New Mexico — Pumping services facility

Midland, Texas — Operations, sales and equipment storage yards

Montgomery, Pennsylvania — Operations, sales and administrative office

Oklahoma City, Oklahoma — Operations, sales and administrative office

San Antonio, Texas — Operations, sales and equipment storage yards

Seminole, Oklahoma — Pumping services facility

The Woodlands, Texas — Operations, sales and administrative office

Washington, Pennsylvania — Operations, sales and equipment storage yards

Williston, North Dakota — Operations, sales and equipment storage yards

Item 3. Legal Proceedings

RPC is a party to various routine legal proceedings primarily involving commercial claims, workers' compensation claims and claims for personal injury. RPC insures against these risks to the extent deemed prudent by its management, but no assurance can be given that the nature and amount of such insurance will, in every case, fully indemnify RPC against liabilities arising out of pending and future legal proceedings related to its business activities. While the outcome of these lawsuits, legal proceedings and claims cannot be predicted with certainty, management believes that the outcome of all such proceedings, even if determined adversely, would not have a material adverse effect on RPC's business or financial condition.

Item 4. Mine Safety Disclosures

The information required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95.1 to this Form 10-K.

Item 4A. Executive Officers of the Registrant

Each of the executive officers of RPC was elected by the Board of Directors to serve until the Board of Directors' meeting immediately following the next annual meeting of stockholders or until his earlier removal by the Board of Directors or his resignation. The following table lists the executive officers of RPC and their ages, offices, and terms of office with RPC.

Name and Office with Registrant	Age	Date First Elected to Present Office
R. Randall Rollins ⁽¹⁾	87	1/24/84
Chairman of the Board		
Richard A. Hubbell ⁽²⁾	74	4/22/03
President and Chief Executive Officer		
Ben M. Palmer ⁽³⁾	58	7/8/96
Vice President, Chief Financial Officer and Corporate Secretary		

R. Randall Rollins began working for Rollins, Inc. (consumer services) in 1949. Mr. Rollins has served as Chairman of the Board of RPC since the spin-off of RPC from Rollins, Inc. in 1984. He has served as Chairman of (1) the Board of Marine Products Corporation (boat manufacturing) since it was spun off from RPC in 2001 and as Chairman of the Board of Rollins, Inc. since October 1991. He is also a director of Dover Downs Gaming and Entertainment, Inc. and Dover Motorsports, Inc.

Richard A. Hubbell has been the President of RPC since 1987 and Chief Executive Officer since 2003. He has also (2) been the President and Chief Executive Officer of Marine Products Corporation since it was spun off from RPC in 2001. Mr. Hubbell serves on the Board of Directors of both of these companies.

Ben M. Palmer has been the Vice President and Chief Financial Officer of RPC since 1996. He has also been the (3) Vice President and Chief Financial Officer of Marine Products Corporation since it was spun off from RPC in 2001. He assumed the responsibilities as Corporate Secretary of RPC and Marine Products Corporation in July 2017.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

RPC's common stock is listed for trading on the New York Stock Exchange under the symbol RES. As of February 15, 2019 there were 215,210,657 shares of common stock outstanding and approximately 24,000 beneficial holders of our common stock.

Issuer Purchases of Equity Securities

Shares repurchased by the Company and affiliated purchases in the fourth quarter of 2018 are outlined below.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the
--------	--	---	--	--

				or Programs	Plans or Programs (1)
October 1, 2018 to October 31, 2018	778	(1) (2)	\$ 14.51	300	9,072,553
November 1, 2018 to November 30, 2018	100,000	(1)	13.67	100,000	8,972,553
December 1, 2018 to December 31, 2018	129,010	(1) (2)	11.34	128,784	8,843,769
Totals	229,788		\$ 12.36	229,084	8,843,769

The Company has a stock buyback program initially adopted in 1998 and subsequently amended in 2013 and 2018 that authorizes the repurchase of up to 41,578,125 shares. On February 12, 2018, the Board of Directors increased the number of shares authorized for repurchase by 10,000,000 shares. There were 229,084 shares repurchased as part of this program during the fourth quarter of 2018. As of December 31, 2018, there are 8,843,769 shares available to be repurchased under the current authorization. Currently the program does not have a predetermined expiration date.

(1) Shares purchased by the Company in addition to those purchased as part of publicly announced plans or programs, represent shares repurchased in connection with taxes related to the vesting of certain restricted shares.

Performance Graph

The following graph shows a five-year comparison of the cumulative total stockholder return based on the performance of the stock of the Company, assuming dividend reinvestment, as compared with both a broad equity market index and an industry or peer group index. The indices included in the following graph are the Russell 1000 Index (“Russell 1000”), the Philadelphia Stock Exchange’s Oil Service Index (“OSX”), and a peer group which includes companies that are considered peers of the Company (the “Peer Group”). The Company has voluntarily chosen to provide both an industry and a peer group index.

The Company was a component of the Russell 1000 during 2018. The Russell 1000 is a stock index representing large capitalization U.S. stocks with high historical growth in revenues and earnings. The components of the index had a weighted average market capitalization in 2018 of \$193 billion, and a median market capitalization of \$9.9 billion. The Russell 1000 was chosen because it represents companies with comparable market capitalizations to the Company, and because the Company is a component of the index. The OSX is a stock index of 15 companies that provide oil drilling and production services, oilfield equipment, support services and geophysical/reservoir services. The Company is not a component of the OSX, but this index was chosen because it represents a large group of companies that provide the same or similar equipment and services as the Company. The companies included in the Peer Group are Weatherford International, Inc., Superior Energy Services, Inc., Patterson-UTI Energy, Inc., and Halliburton Company. The companies included in the Peer Group have been weighted according to each respective issuer's stock market capitalization at the beginning of each year.

Item 6. Selected Financial Data

The following table summarizes certain selected financial data of the Company. The historical information may not be indicative of the Company's future results of operations. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the notes thereto included elsewhere in this document.

Statements of Operations Data:

Years Ended December 31,	2018	2017	2016	2015	2014
	(in thousands, except employee and per share amounts)				
Revenues	\$1,721,005	\$1,595,227	\$728,974	\$1,263,840	\$2,337,413
Cost of revenues	1,183,048	1,050,809	607,888	986,144	1,493,082
Selling, general and administrative expenses	168,151	159,194	150,690	156,579	197,117
Depreciation and amortization	163,120	163,537	217,258	270,977	230,813
(Gain) loss on disposition of assets, net	(3,344)	(4,530)	(7,920)	6,417	15,472
Operating profit (loss)	210,030	226,217	(238,942)	(156,277)	400,929
Interest expense	(489)	(426)	(681)	(2,032)	(1,431)
Interest income	2,426	1,494	467	83	19
Other income (expense), net	9,313	5,531	(204)	5,185	(131)
Income (loss) before income taxes	221,280	232,816	(239,360)	(153,041)	399,386
Income tax provision (benefit) ⁽¹⁾	45,878	70,305	(98,114)	(53,480)	154,193
Net income (loss) ⁽¹⁾	\$175,402	\$162,511	\$(141,246)	\$(99,561)	\$245,193
Earnings (loss) per share : ⁽¹⁾					
Basic	\$0.82	\$0.75	\$(0.66)	\$(0.47)	\$1.14
Diluted	\$0.82	\$0.75	\$(0.66)	\$(0.47)	\$1.14
Dividends paid per share	\$0.47	\$0.200	\$0.050	\$0.155	\$0.420
Other Data:					
Operating profit (loss) margin percent	12.2	% 14.2	% (32.8)%	(12.4)%	17.2
Net cash provided by operating activities	\$389,009	\$133,704	\$101,704	\$473,792	\$322,757
Net cash used for investing activities	(219,727)	(104,386)	(21,339)	(157,583)	(355,349)
Net cash (used for) provided by financing activities	(144,070)	(70,103)	(13,726)	(260,785)	33,664
Capital expenditures	\$242,610	\$117,509	\$33,938	\$167,426	\$371,502
Employees at end of period	3,600	3,500	2,500	3,100	4,500
Balance Sheet Data at Year End:					
Accounts receivable, net	\$323,533	\$377,853	\$169,166	\$232,187	\$634,730
Working capital	475,701	494,775	377,589	384,744	612,616

Edgar Filing: RPC INC - Form 10-K

Property, plant and equipment, net	517,982	443,928	497,986	688,335	849,383
Total assets	1,199,580	1,147,224	1,035,452	1,237,094	1,759,358
Long-term debt	—	—	—	—	224,500
Total stockholders' equity	\$950,419	\$911,697	\$806,799	\$952,281	\$1,078,382

(1) The indicated data for 2017 includes the impact of a net discrete tax benefit of \$19.3 million, or \$0.09 per share, recorded as a result of the Tax Cuts and Jobs Act enacted during the fourth quarter of 2017.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion should be read in conjunction with "Selected Financial Data" and the Consolidated Financial Statements included elsewhere in this document. See also "Forward-Looking Statements" on page 2.

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 southwest, mid-continent, Gulf of Mexico, Rocky Mountain and Appalachian regions, and in selected international markets. 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.

Our key business and financial strategies are:

- To focus our management resources on and invest our capital in equipment and geographic markets that we believe will earn high returns on capital.

- To maintain a flexible cost structure that can respond quickly to volatile industry conditions and business activity levels.

- To maintain an efficient, low-cost capital structure which includes an appropriate use of debt financing.

- To optimize asset utilization with the goal of increasing revenues and generating leverage of direct and overhead costs, balanced against increasingly high maintenance requirements and low financial returns experienced during times of low customer pricing for our services.

- To deliver product and services to our customers safely.

-

To secure adequate sources of supplies of certain high-demand raw materials used in our operations, both in order to conduct our operations and to enhance our competitive position.

-To maintain and selectively increase market share.

To maximize stockholder return by optimizing the balance between cash invested in the Company's productive assets, the payment of dividends to stockholders, and the repurchase of our common stock on the open market.

-To align the interests of our management and stockholders.

In assessing the outcomes of these strategies and RPC's financial condition and operating performance, management generally reviews periodic forecast data, monthly actual results, and other similar information. We also consider trends related to certain key financial data, including revenues, utilization of our equipment and personnel, maintenance and repair expenses, pricing for our services and equipment, profit margins, selling, general and administrative expenses, cash flows and the return on our invested capital. Additionally, we compare our trends to those of our peers. 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.

Current industry conditions are characterized by oil prices which have fallen from a cyclical peak of \$75 per barrel in the fourth quarter of 2018 to \$54 per barrel in the first quarter of 2019. In spite of this significant decrease in the price of oil, the U.S. domestic rig count and well completion counts have not fallen significantly during the fourth quarter of 2018 and into the first quarter of 2019. However, many of our customers indicate that they are curtailing or delaying their drilling and completion plans early in 2019, and we believe that this will have a negative impact on RPC's revenues and earnings during the near term. One catalyst for the recent decrease in the price of oil relates to global supply and demand for the commodity. Early in 2019, a potential slowdown in economic growth is perceived to be a catalyst for lower oil prices, a factor which is exacerbated by continued growth in oil production, particularly in the United States. RPC believes that oil production in the United States has also become an increasingly important determinant of global oil prices, because the United States grew to be the world's largest producer of oil during the second quarter of 2016. Following its recent peak, U.S. oil production fell by 25 percent as of the third quarter of 2017. Since that time, however, improving drilling and completion activity have caused U.S. domestic oil production to rise, and as of the most recent monthly reported statistics, current U.S. oil production has increased to a level that is 42 percent higher than the cyclical low production recorded during the third quarter of 2016. During the fourth quarter of 2018, U.S. oil production rose to its highest level on record. We believe that record U.S. oil production is a catalyst for lower oil prices during the near term. Customer activities directed towards natural gas drilling and production have been weak for several years, with the U.S. domestic natural gas rig count during the first quarter of 2017 falling to the lowest level ever recorded. The U.S. domestic natural gas rig count has increased from this historic low but is still low by historical standards. We believe that customer activities directed towards drilling for natural gas has been weak because of the high production of shale-directed natural gas wells, the high amount of natural gas production associated with oil-directed shale wells in the U.S. domestic market, and relatively constant consumption of natural gas in the United States. We believe that these factors will continue to depress natural gas-directed drilling during the near term. From a low of \$1.72 per Mcf during the second quarter of 2017, the price of natural gas had risen to \$2.65 per Mcf early in the first quarter of 2019. We believe that the price of natural gas remains too low to encourage our customers to conduct exploration and production activities directed exclusively towards natural gas.

In 2018, the Company's strategy of utilizing equipment in unconventional basins has continued. During 2018, we made capital expenditures totaling \$242.6 million primarily for new revenue-producing equipment and capitalized maintenance of our existing equipment.

Revenues during 2018 totaled \$1.7 billion, an increase of 7.9 percent compared to 2017 primarily as a result of higher activity levels and improved pricing for certain service lines. Cost of revenues increased \$132.2 million in 2018 compared to the prior year due to higher employment costs, maintenance and repairs expenses and other costs, all of which were driven by higher activity levels. As a percentage of revenues, cost of revenues increased to 68.7 percent in 2018 compared to 65.9 percent in 2017.

Selling, general and administrative expenses as a percentage of revenues decreased slightly to 9.8 percent in 2018 compared to 10.0 percent in 2017 due to the leverage of higher revenues over primarily fixed expenses.

Income before income taxes was \$221.3 million for 2018 compared to \$232.8 million in 2017. Net income for 2018 was \$175.4 million, or \$0.82 earnings per share compared to \$162.5 million, or \$0.75 earnings per share in 2017. Net income in 2018 and 2017 reflect the lower income rates as a result of the Tax Cuts and Jobs Act. Additionally, net income in 2017 includes a discrete tax benefit of \$19.3 million, or \$0.09 per share, related to the implementation of the Tax Cuts and Jobs Act enacted in 2017.

Cash flows from operating activities increased to \$389.0 million in 2018 compared to \$133.7 million in 2017 primarily due to higher earnings coupled with favorable changes in working capital. As of December 31, 2018, there were no outstanding borrowings under our credit facility.

Outlook

Drilling activity in the U.S. domestic oilfields, as measured by the rotary drilling rig count, reached a cyclical peak of 1,931 during the third quarter of 2014. Between the third quarter of 2014 and the second quarter of 2016, the drilling rig count fell by 79 percent. During the second quarter of 2016, the U.S. domestic drilling rig count reached the lowest level ever recorded. The principal catalyst for this steep rig count decline was the decrease in the price of oil in the world markets, which began in the second quarter of 2014. The price of oil began to fall at that time due to the perceived oversupply of oil, weak global demand growth, and the strength of the U.S. dollar on world currency markets. During the second quarter of 2016, the price of oil and the U.S. domestic rig count began to increase, and increased steadily throughout the remainder of 2016, throughout 2017 and 2018. Early in 2019, the U.S. domestic rig count had fallen by approximately three percent compared with the end of 2018. RPC monitors rig count efficiencies and well completion trends because the majority of our services are directed toward well completions. Improvements in drilling rig efficiencies have increased the number of potential well completions for a given drilling rig count; therefore, the statistics regarding well completions are more meaningful indicators of the outlook for RPC's activity levels and revenues. Annual well completions in the U.S. domestic market fell from 21,355 in 2014 to 8,060 in 2016. Annual well completions increased by approximately 40 percent to 11,277 in 2017, and by approximately 31 percent to 14,756 during 2018. RPC believes that U.S. oilfield well completion activity will remain at its current level or decline during the near term.

The current and projected prices of oil, natural gas and natural gas liquids are important catalysts for U.S. domestic drilling activity. During the first two quarters of 2016, the prices of oil and natural gas remained at low levels that discouraged our customers from undertaking most of their potential exploration and production activities. The prices of oil and natural gas increased during the third and fourth quarters of 2016, throughout 2017 and continued during the first three quarters of 2018. The price of natural gas continued to rise during the fourth quarter of 2018 and into the first quarter of 2019, due to low natural gas storage levels, cold weather and increasing demand for natural gas exports. In spite of the recent increase in the price of natural gas, we do not believe that it has risen to a level that encourages our customers to increase their natural gas directed drilling and production activities. By contrast, the price of oil began to fall significantly during the fourth quarter of 2018, and at the end of the quarter, was approximately 38 percent lower than at the end of the third quarter of 2018. Early in the first quarter of 2019, the price of oil had risen by approximately 19 percent when compared with the end of the fourth quarter of 2018. The average price of natural gas liquids in 2018 increased by 14.7 percent compared to the average price for the full year 2017. The price of oil early in the first quarter of 2019 carries negative implications for RPC's near-term activity levels.

The majority of the U.S. domestic rig count remains directed towards oil. At the beginning of the first quarter of 2019, approximately 81 percent of the U.S. domestic rig count was directed towards oil, consistent with the prior year. We believe that oil-directed drilling will remain the majority of domestic drilling, and that natural gas-directed drilling will remain a low percentage of U.S. domestic drilling in the near term. We believe that this relationship will continue due to relatively low prices for natural gas, high production from existing natural gas wells, and industry projections of limited increases in domestic natural gas demand during the near term.

We continue to monitor the market for our services and the competitive environment. The U.S. domestic rig count has increased sharply since the historical low recorded during the second quarter of 2016, though there are indications early in 2019 that the rig count will decline during the near term. The fact that drilling and completion activities continue to be highly service-intensive and require a large amount of equipment and raw materials carries favorable implications for our activity levels. Furthermore, we note that some wells in the U.S. domestic market have been drilled but not completed. At the end of 2018, the number of wells in this category had increased by approximately 15 percent since the beginning of the year. We believe that operators will complete many of these wells in the near term, and that they may provide potential revenue for RPC's completion-directed services. During 2018, we noted that oilfield completion crews and equipment were providing services with increasing efficiency, and we believe that this higher efficiency has caused the market for several oilfield completion services, including pressure pumping, to become oversupplied. We believe that this development carries negative consequences for pricing of our services, utilization of our equipment and our financial results during the near term.

Activity levels and pricing for oilfield services reached a level during 2018 that allowed the industry to maintain its equipment and encouraged oilfield service providers to expand their fleets of revenue-producing equipment and hire additional personnel. The prospect of improved financial returns also provided access to the capital markets and allowed previously insolvent service companies to resume operations and add equipment. As a result, competition increased during 2018. Increased competition and improved service efficiency, coupled with the significant decline in oil prices during the fourth quarter of 2018, have become catalysts for lower pricing and activity levels early in 2019. RPC expanded the size of its fleet of revenue-producing equipment modestly during 2018 and has placed orders for a

small amount of new equipment to be delivered in 2019. The equipment we placed in service in 2018 and the new equipment we have ordered in 2019 is more powerful and efficient than earlier generations of oilfield service equipment, and we believe that it will produce acceptable financial returns when placed in service. Our consistent response to the near-term potential of lower activity levels and pricing is to undertake moderate fleet expansions which will allow us to maintain a strong balance sheet, even if near-term pricing and activity levels generated by such new equipment are modest.

The negative implications for RPC's near-term activity levels from low oil prices and increased competition are partially offset by improved availability and lower cost for some of the critical raw materials used in providing RPC's services. In addition, lower activity levels reduce the cost, and increase the availability of, skilled labor. These factors may reduce the cost of providing RPC's services and reduce logistical constraints.

Results of Operations

Years Ended December 31, (in thousands except per share amounts and industry data)	2018	2017	2016
Consolidated revenues	\$1,721,005	\$1,595,227	\$728,974
Revenues by business segment:			
Technical	\$1,647,213	\$1,538,351	\$679,654
Support	73,792	56,876	49,320
Consolidated operating profit (loss)	\$210,030	\$226,217	\$(238,942)
Operating profit (loss) by business segment:			
Technical	\$216,703	\$251,476	\$(203,804)
Support	4,612	(12,228)	(26,021)
Corporate expenses	(14,629)	(17,561)	(17,037)
Gain on disposition of assets, net	3,344	4,530	7,920
Net income (loss) (1)	\$175,402	\$162,511	\$(141,246)
Earnings (loss) per share — diluted (1)	\$0.82	\$0.75	\$(0.66)
Percentage of cost of revenues to revenues	69	% 66	% 83
Percentage of selling, general and administrative expenses to revenues	10	% 10	% 21
Percentage of depreciation and amortization expenses to revenues	10	% 10	% 30
Effective income tax rate (1)	20.7	% 30.2	% 41.0
Average U.S. domestic rig count	1,032	877	509
Average natural gas price (per thousand cubic feet (mcf))	\$3.18	\$2.99	\$2.52
Average oil price (per barrel)	\$65.02	\$50.84	\$43.49

(1) The indicated data for 2017 includes the impact of a net discrete tax benefit of \$19.3 million, or \$0.09 per share, recorded as a result of the Tax Cuts and Jobs Act enacted during the fourth quarter of 2017.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues. Revenues in 2018 increased \$125.8 million or 7.9 percent compared to 2017. The Technical Services segment revenues in 2018 increased \$108.9 million or 7.1 percent compared to the prior year. The increase is due primarily to higher activity levels and improved pricing in a few of our services lines as compared to the prior year. The Support Services segment revenues in 2018 increased \$16.9 million or 29.7 percent compared to 2017 due primarily to improved activity levels and pricing in the rental tool service line, which is the largest service line within this segment. Technical Services reported an operating profit of \$216.7 million during 2018 compared to \$251.5 million in the prior year, while Support Services reported an operating income of \$4.6 million in 2018 compared to an operating loss of \$12.2 million in the prior year. The average price of oil increased 27.9 percent while the average price of natural gas increased 6.4 percent during 2018 compared to the prior year. The average domestic rig count

during 2018 was 17.7 percent higher than 2017. International revenues, which increased from \$55.9 million in 2017 to \$90.4 million in 2018, were five percent of consolidated revenues in 2018 compared to four percent of consolidated revenues in 2017. International revenues increased primarily due to higher customer activity levels in Argentina and to a lesser extent, Mexico and Pakistan in 2018, partially offset by lower activity in Gabon compared to the prior year. Our international revenues are impacted by the timing of project initiation and their ultimate duration.

Cost of revenues. Cost of revenues in 2018 was \$1.2 billion compared to \$1.1 billion in 2017, an increase of \$132.2 million or 12.6 percent due to higher employment costs, maintenance and repair expenses and other costs, all of which were driven by higher activity levels. As a percentage of revenues, cost of revenues increased to 68.7 percent in 2018 compared to 65.9 percent in 2017.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 5.6 percent to \$168.2 million in 2018 compared to \$159.2 million in 2017. These expenses increased due to higher salaries and wages expense consistent with higher activity levels as well as an increase in information technology costs. Selling, general and administrative expenses as a percentage of revenues decreased slightly to 9.8 percent of revenues in 2018 compared to 10.0 percent of revenues in 2017 due to the leverage of higher revenues over primarily fixed expenses.

Depreciation and amortization. Depreciation and amortization were \$163.1 million in 2018, a decrease of \$0.4 million, compared to \$163.5 million in 2017 due to lower capital expenditures in the prior year. As a percentage of revenues, depreciation and amortization decreased in 2018 compared to 2017 primarily due to higher revenues.

Gain on disposition of assets, net. Gain on disposition of assets, net was \$3.3 million in 2018 compared to \$4.5 million in 2017. The decrease is due to the sale of operating equipment related to its oilfield pipe inspection service line during the second quarter of 2017 that did not recur in the current period. The gain on disposition of assets, net is generally comprised of gains or losses related to various property and equipment dispositions or sales to customers of lost or damaged rental equipment.

Other income (expense), net. Other income, net was \$9.3 million in 2018 compared to of \$5.5 million in 2017. Other income recorded in 2018 includes property insurance proceeds totaling \$9.6 million. Income recorded in 2017 included a favorable settlement of \$2.0 million associated with the resolution of a sales tax matter, as well as a property insurance proceeds of \$1.9 million.

Interest expense and interest income. Interest expense increased to \$0.5 million in 2018 compared to \$0.4 million in 2017. Interest expense in 2018 and 2017 principally consists of fees on the unused portion of the credit facility. Interest income increased to \$2.4 million in 2018 compared to \$1.5 thousand in 2017 due to higher investable cash balances.

Income tax provision (benefit). The income tax provision was \$45.9 million in 2018 compared to \$70.3 million in 2017. The effective tax rate was 20.7 percent in 2018 compared to 30.2 percent in 2017. The decrease in the income tax provision for 2018 primarily reflects the decrease in Federal income tax rates from 35 percent to 21 percent as enacted by the 2017 Tax Cuts and Jobs Act.

Net income and diluted earnings per share. Net income was \$175.4 million in 2018, or \$0.82 earnings per diluted share, compared to \$162.5 million in 2017, or \$0.75 earnings per diluted share. This improvement in earnings per share was due to higher net income as average shares outstanding was essentially unchanged.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenues. Revenues in 2017 increased \$866.3 million or 118.8 percent compared to 2016. The Technical Services segment revenues in 2017 increased \$858.7 million or 126.3 percent compared to the prior year. The increase was due primarily to improved pricing, higher service intensity and activity levels and a larger active fleet of revenue-producing equipment as compared to prior year, particularly within our pressure pumping service. The Support Services segment revenues in 2017 increased \$7.6 million or 15.3 percent compared to 2016 due primarily to improved activity levels and pricing in the rental tool service line, which is the largest service line within this segment. Technical Services reported an operating profit during 2017 compared to an operating loss in the prior year, while Support Services reported a smaller operating loss in 2017 compared to the prior year. The average price of oil increased 16.9 percent while the average price of natural gas increased 18.8 percent during 2017 compared to the prior year. The average domestic rig count during 2017 was 72.2 percent higher than 2016. International revenues, which increased from \$51.2 million in 2016 to \$55.8 million in 2017, were three percent of consolidated revenues in 2017 compared to seven percent of consolidated revenues in 2016. International revenues increased primarily due to higher customer activity levels in Canada and Argentina in 2017, partially offset by lower activity in Gabon and Bolivia compared to the prior year. Our international revenues are impacted by the timing of project initiation and their ultimate duration.

Cost of revenues. Cost of revenues in 2017 was \$1.1 billion compared to \$607.9 million in 2016, an increase of \$442.9 million or 72.9 percent due to higher materials and supplies expenses, employment costs, maintenance and repairs expenses and fuel costs, all of which were driven by higher activity levels. As a percentage of revenues, cost of revenues decreased due to leverage of higher revenues over direct employment costs and improved pricing for our services.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 5.6 percent to \$159.2 million in 2017 compared to \$150.7 million in 2016. These expenses increased due to higher compensation costs, primarily incentive compensation, as well as other expenses consistent with higher activity levels and improved profitability. Selling, general and administrative expenses as a percentage of revenues decreased to 10.0 percent of revenues in 2017 compared to 20.7 percent of revenues in 2016 due to the leverage of higher revenues over primarily fixed expenses.

Depreciation and amortization. Depreciation and amortization were \$163.5 million in 2017, a decrease of \$53.7 million, compared to \$217.3 million in 2016 due to lower capital expenditures in the prior year. As a percentage of revenues, depreciation and amortization decreased in 2017 compared to 2016 primarily due to higher revenues.

Gain on disposition of assets, net. Gain on disposition of assets, net was \$4.5 million in 2017 compared to \$7.9 million in 2016. RPC recorded a gain on disposition of assets of \$4.0 million during the fourth quarter of 2016 resulting from the sale of operating equipment related to its oilfield pipe inspection service. The remaining gain on disposition of assets, net in 2016 and 2017 is comprised of gains or losses related to various property and equipment dispositions or sales to customers of lost or damaged rental equipment.

Other income (expense), net. Other income, net was \$5.5 million in 2017 compared to other expense, net of \$204 thousand in 2016. Income recorded in 2017 includes a favorable settlement of \$2.0 million associated with the resolution of a sales tax matter, as well as a property insurance recovery of \$1.9 million.

Interest expense and interest income. Interest expense decreased to \$0.4 million in 2017 compared to \$0.7 million in 2016. Interest expense in 2017 and 2016 principally consists of fees on the unused portion of the credit facility. Interest income increased to \$1.5 million in 2017 compared to \$467 thousand in 2016 due to higher investable cash balances.

Income tax provision (benefit). The income tax provision was \$70.3 million in 2017 compared to an income tax benefit of \$98.1 million in 2016. The effective tax rate was 30.2 percent in 2017 compared to 41.0 percent in 2016. The income tax provision for 2017 includes a discrete benefit of \$19.3 million, due to the implementation of the recently enacted "Tax Cuts and Jobs Act." The income tax benefit in 2016 includes a discrete tax benefit of \$15.7 million recorded in connection with the favorable resolution of an open income tax matter.

Net income (loss) and diluted earnings (loss) per share. Net income was \$162.5 million in 2017, or \$0.75 earnings per diluted share, compared to a net loss of \$141.2 million in 2016, or \$0.66 loss per diluted share. This improvement in earnings per share was due to higher profitability as average shares outstanding was essentially unchanged.

Liquidity and Capital Resources

Cash and Cash Flows

The Company's cash and cash equivalents were \$116.3 million as of December 31, 2018, \$91.1 million as of December 31, 2017 and \$131.8 million as of December 31, 2016.

The following table sets forth the historical cash flows for the years ended December 31:

	(in thousands)		
	2018	2017	2016
Net cash provided by operating activities	\$389,009	\$133,704	\$101,704
Net cash used for investing activities	(219,727)	(104,386)	(21,339)
Net cash used for financing activities	(144,070)	(70,103)	(13,726)

2018

Cash provided by operating activities in 2018 increased by \$255.3 million compared to the prior year. This increase is due primarily to an increase in net income of \$12.9 million, net favorable changes in working capital of \$196.7 million and the deferred income tax provision of \$64.0 million partially offset by gains due to an insurance recovery and a benefit plan financing arrangement. The net favorable change in working capital is primarily due to favorable changes of \$262.6 million in accounts receivable due to lower activity levels and revenues in the third and fourth quarters 2018, \$4.3 million in accrued expenses and \$6.1 million in prepaid expenses/ other current assets. These favorable changes were partially offset by unfavorable working capital changes of \$9.3 million in net income taxes receivable/ payable, \$9.4 million in inventories, \$36.9 million in accounts payable, \$11.1 million in accrued state and local taxes and \$9.2 million in accrued payroll and related expenses.

Cash used for investing activities in 2018 increased by \$115.3 million, compared to 2017, primarily because of higher capital expenditures partially offset by property insurance proceeds.

Cash used for financing activities in 2018 increased by \$74.0 million primarily as a result of primarily as a result of increased cash dividends to common stockholders coupled with the higher cost of repurchases of the Company's shares on the open market and for taxes related to the vesting of restricted shares.

2017

Cash provided by operating activities in 2017 increased by \$32.0 million compared to the prior year. This increase is due primarily to an increase in net income of \$303.8 million, and an increase in other long-term liabilities of \$15.6 million primarily related to the favorable resolution of an income tax matter in 2016. These changes were partially offset by net unfavorable changes in working capital of \$234.7 million coupled with a decrease in depreciation and amortization expenses of \$54.5 million. The net unfavorable change in working capital was primarily due to unfavorable changes of \$273.4 million in accounts receivable and \$26.6 million in inventories due to higher business activity levels, \$5.7 million in prepaid expenses and other current assets, and \$10.4 million in accrued expenses due to the timing of services performed. This unfavorable change was partially offset by favorable changes in working capital of \$35.4 million in accounts payable, \$23.3 million in income taxes receivable/ payable, net and \$15.9 million in accrued payroll and related expenses consistent with higher business activity levels coupled with the timing of payments and receipts of tax refunds.

Cash used for investing activities in 2017 increased by \$83.0 million, compared to 2016, primarily because of higher capital expenditures in response to improved industry conditions.

Cash used for financing activities in 2017 increased by \$56.4 million primarily as a result of higher cash dividends to common stockholders consistent with improved financial results, and increased repurchases of the Company's common stock on the open market and for taxes related to the vesting of certain restricted shares.

Financial Condition and Liquidity

The Company's financial condition as of December 31, 2018 remains strong. We believe the liquidity provided by our existing cash and cash equivalents and our overall strong capitalization will provide sufficient liquidity to meet our requirements for at least the next twelve months. The Company currently has a \$125 million revolving credit facility that matures in July 2023. The facility contains customary terms and conditions, including restrictions on

indebtedness, dividend payments, business combinations and other related items. On July 26, 2018, the Company amended the revolving credit facility to, among other matters, (1) replace the existing minimum tangible net worth covenant, as well as, (2) extend the maturity date of the revolving credit facility to July 26, 2023, (3) eliminate any borrowing base limitations on revolving loans when certain criteria exist, (4) reduce the commitment fees payable by RPC and (5) reduce the letter of credit sublimit from \$50 million to \$35 million. As of December 30, 2018, RPC had no outstanding borrowings under the revolving credit facility, and letters of credit outstanding relating to self-insurance programs and contract bids totaled \$19.5 million; therefore, a total of \$105.5 million of the facility was available. For additional information with respect to RPC's facility, see Note 7 of the Notes to Consolidated Financial Statements included in this report.

The Company's decisions about the amount of cash to be used for investing and financing purposes are influenced by its capital position, including the expected amount of cash to be provided by operations and access to borrowings under our facility. We believe our liquidity will continue to provide the opportunity to grow our asset base and revenues during periods with positive business conditions and strong customer activity levels. In addition, the Company's decisions about the amount of cash to be used for investing and financing activities may also be influenced by the financial covenants in our credit facility but we do not expect the covenants to restrict our planned activities. The Company is in compliance with these financial covenants.

Cash Requirements

Capital expenditures were \$242.6 million in 2018, and we currently expect capital expenditures to be approximately \$289 million in 2019. We expect that a majority of these expenditures in 2019 will be directed towards new revenue-producing equipment and capitalized maintenance of our existing equipment. The actual amount of capital expenditures will depend primarily on equipment maintenance requirements, expansion opportunities, and equipment delivery schedules.

The Company's Retirement Income Plan, a multiple employer trustee defined benefit pension plan, provides monthly benefits upon retirement at age 65 to eligible employees. During 2018, the Company contributed \$5.0 million to the pension plan and although not required, Company management will evaluate contributing to the pension plan during 2019.

The Company has a stock buyback program, initially adopted in 1998 and subsequently amended in 2013 and 2018, that authorizes the repurchase of up to 41,578,125 shares. On February 12, 2018, the Board of Directors increased the number of shares authorized for repurchase by 10 million shares. There were 2,131,496 shares purchased on the open market by the Company during 2018, and 8,843,769 shares remain available to be repurchased under the current authorization as of December 31, 2018. The Company may repurchase outstanding common shares periodically based on market conditions and our capital allocation strategies considering restrictions under our credit facility. The stock buyback program does not have a predetermined expiration date.

On January 22, 2019, the Board of Directors declared a regular quarterly cash dividend of \$0.10 per share payable March 11, 2019 to common stockholders of record at the close of business on February 11, 2019. Subject to industry conditions and RPC's earnings, financial condition, and other relevant factors, the Company expects to continue to pay regular quarterly cash dividends to common stockholders.

Contractual Obligations

The Company's obligations and commitments that require future payments include our credit facility, certain non-cancelable operating leases, purchase obligations and other long-term liabilities. The following table summarizes the Company's significant contractual obligations as of December 31, 2018:

Contractual Obligations (in thousands)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$—	\$—	\$—	\$—	\$—
Interest on long-term debt obligations	—	—	—	—	—
Capital lease obligations	—	—	—	—	—
Operating leases ⁽¹⁾	44,945	11,819	18,409	8,547	6,170
Purchase obligations ⁽²⁾	72,805	72,805	—	—	—
Other long-term liabilities ⁽³⁾	8,071	7,180	891	—	—
Total contractual obligations	\$125,821	\$91,804	\$19,300	\$8,547	\$6,170

(1) Operating leases include agreements for various office locations, office equipment, and certain operating equipment.

Includes agreements to purchase raw materials, goods or services that have been approved and that specify all (2) significant terms (pricing, quantity, and timing). As part of the normal course of business the Company occasionally enters into purchase commitments to manage its various operating needs.

Includes expected cash payments for long-term liabilities reflected on the balance sheet where the timing of the (3) payments is known. These amounts include incentive compensation. These amounts exclude pension obligations with uncertain funding requirements and deferred compensation liabilities.

Fair Value Measurements

The Company's assets and liabilities measured at fair value are classified in the fair value hierarchy (Level 1, 2 or 3) based on the inputs used for valuation. Assets and liabilities that are traded on an exchange with a quoted price are classified as Level 1. Assets and liabilities that are valued using significant observable inputs in addition to quoted market prices are classified as Level 2. The Company currently has no assets or liabilities measured on a recurring basis that are valued using unobservable inputs and therefore no assets or liabilities measured on a recurring basis are classified as Level 3. For defined benefit plan and Supplemental Executive Retirement Plan ("SERP") investments measured at net asset value, the values are computed using inputs such as cost, discounted future cash flows, independent appraisals and market based comparable data or on net asset values calculated by the fund when not publicly available.

Inflation

The Company purchases its equipment and materials from suppliers who provide competitive prices, and employs skilled workers from competitive labor markets. If inflation in the general economy increases, the Company's costs for equipment, materials and labor could increase as well. In addition, increases in activity in the domestic oilfield can cause upward wage pressures in the labor markets from which it hires employees, especially if employment in the general economy increases. In addition, activity increases can cause increases in the costs of certain materials and key equipment components used to provide services to the Company's customers. Since oilfield activity began to increase in the second quarter of 2016, the Company has experienced upward pressure on the price of labor due to the shortage of skilled employees as well as occasional increases in the prices of certain raw materials used in providing our services. During 2018, however, prices for the raw material comprising the Company's single largest raw material purchase began to decline due to increased sources of supply of the material, particularly in geographic markets located close to the largest U.S. oil and gas basin. In addition, labor cost pressures during the fourth quarter of 2018 began to abate due to lower oilfield activity.

Off Balance Sheet Arrangements

The Company does not have any material off balance sheet arrangements.

Related Party Transactions

Marine Products Corporation

Effective in 2001, the Company spun off the business conducted through Chaparral Boats, Inc. ("Chaparral"), RPC's former powerboat manufacturing segment. RPC accomplished the spin-off by contributing 100 percent of the issued and outstanding stock of Chaparral to Marine Products Corporation (a Delaware corporation) ("Marine Products"), a newly formed wholly owned subsidiary of RPC, and then distributing the common stock of Marine Products to RPC stockholders. In conjunction with the spin-off, RPC and Marine Products entered into various agreements that define the companies' relationship.

In accordance with a Transition Support Services agreement, which may be terminated by either party, RPC provides certain administrative services, including financial reporting and income tax administration, acquisition assistance, etc., to Marine Products. Charges from the Company (or from corporations that are subsidiaries of the Company) for

such services were \$873,000 in 2018, \$849,000 in 2017, and \$739,000 in 2016. The Company's receivable due from Marine Products for these services was \$28,000 as of December 31, 2018 and \$47,000 as of December 31, 2017. Many of the Company's directors are also directors of Marine Products and all of the executive officers are employees of both the Company and Marine Products.

Other

The Company periodically purchases in the ordinary course of business equipment or services from suppliers, who are owned by significant officers or stockholders, or affiliated with the directors of RPC. The total amounts paid to these affiliated parties were \$1,467,000 in 2018, \$1,372,000 in 2017 and \$890,000 in 2016.

RPC receives certain administrative services and rents office space from Rollins, Inc. (a company of which Mr. R. Randall Rollins is also Chairman and which is otherwise affiliated with RPC). The service agreements between Rollins, Inc. and the Company provide for the provision of services on a cost reimbursement basis and are terminable on six months' notice. The services covered by these agreements include office space, administration of certain employee benefit programs, and other administrative services. Charges to the Company (or to corporations which are subsidiaries of the Company) for such services and rent totaled \$101,000 in 2018, \$104,000 in 2017 and \$111,000 in 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.

RPC and Marine Products own 50 percent each of a limited liability company called 255 RC, LLC that was created for the joint purchase and ownership of a corporate aircraft. The purchase of the aircraft was completed in January 2015, and the purchase was funded primarily by a \$2,554,000 contribution by each company to 255 RC, LLC. Each of RPC and Marine Products is a party to an operating lease agreement with 255 RC, LLC for a period of five years. RPC recorded certain net operating costs comprised of rent and an allocable share of fixed costs of \$199,000 in 2018 and \$197,000 in 2017 and 2016 for the corporate aircraft. The Company accounts for this investment using the equity method and its proportionate share of income or loss is recorded in selling, general and administrative expenses. As of December 31, 2018, the investment closely approximates the underlying equity in the net assets of 255 RC, LLC.

Critical Accounting Policies

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require significant judgment by management in selecting the appropriate assumptions for calculating accounting estimates. These judgments are based on our historical experience, terms of existing contracts, trends in the industry, and information available from other outside sources, as appropriate. Senior management has discussed the development, selection and disclosure of its critical accounting estimates with the Audit Committee of our Board of Directors. The Company believes the following critical accounting policies involve estimates that require a higher degree of judgment and complexity:

Allowance for doubtful accounts — Substantially all of the Company's receivables are due from oil and gas exploration and production companies in the United States, selected international locations and foreign, nationally owned oil companies. Our allowance for doubtful accounts is determined using a combination of factors to ensure that our receivables are not overstated due to uncollectibility. Our established credit evaluation procedures seek to minimize the amount of business we conduct with higher risk customers. Our customers' ability to pay is directly related to their ability to generate cash flow on their projects and is significantly affected by the volatility in the price of oil and natural gas. Provisions for doubtful accounts are recorded in selling, general and administrative expenses. Accounts are written off against the allowance for doubtful accounts when the Company determines that amounts are uncollectible and recoveries of amounts previously written off are recorded when collected. Significant recoveries will generally reduce the required provision in the period of recovery. Therefore, the provision for doubtful accounts can fluctuate significantly from period to period. Recoveries were insignificant in 2018, 2017 and 2016. We record specific provisions when we become aware of a customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to a customer changes, our estimate of the realizability of the receivable would be further adjusted, either upward or downward.

The estimated allowance for doubtful accounts is based on our evaluation of the overall trends in the oil and gas industry, financial condition of our customers, our historical write-off experience, current economic conditions, and in the case of international customers, our judgments about the economic and political environment of the related country and region. In addition to reserves established for specific customers, we establish general reserves by using different percentages depending on the age of the receivables which we adjust periodically based on management judgment and the economic strength of our customers. The net provisions for doubtful accounts as a percentage of revenues ranged from 0.03 percent to 0.8 percent over the last three years. Increasing or decreasing the estimated general reserve percentages by 0.50 percentage points as of December 31, 2018 would have resulted in a change of \$1.9 million to the allowance for doubtful accounts and a corresponding change to selling, general and administrative expenses.

Income taxes — The effective income tax rates were 20.7 percent in 2018, 30.2 percent in 2017 and 41.0 percent in 2016. Our effective tax rates vary due to changes in estimates of our future taxable income or losses, fluctuations in

the tax jurisdictions in which our earnings and deductions are realized, and favorable or unfavorable adjustments to our estimated tax liabilities related to proposed or probable assessments. As a result, our effective tax rate may fluctuate significantly on a quarterly or annual basis. The effective tax rate for 2018 reflects the change in Federal income tax rates from 35 percent to 21 percent, as required by the Tax Cuts and Jobs Act (TCJA), as well as other beneficial adjustments.

The Company establishes a valuation allowance against the carrying value of deferred tax assets when it is determined that it is more likely than not that the asset will not be realized through future taxable income. Such amounts are charged to earnings in the period the determination is made. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, the applicable portion of the previously provided valuation allowance is reversed. The Company considers future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which the Company operates, and prudent and feasible tax planning strategies in determining the need for a valuation allowance.

The Company calculates the current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are recorded when identified, which is generally in the third quarter of the subsequent year for U.S. federal and state provisions. Deferred tax liabilities and assets are determined based on the differences between the financial and tax bases of assets and liabilities using enacted tax rates in effect in the year the differences are expected to reverse. In 2017, the Company revalued its deferred tax assets and liabilities to reflect the change in Federal income tax rates, as required by the TCJA. All deferred tax assets and liabilities from December 31, 2017 forward reflect the changed rate.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. The Company believes it has adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. Additionally, the jurisdictions in which our earnings or deductions are realized may differ from our current estimates.

Insurance expenses —The Company self-insures, up to certain policy-specified limits, certain risks related to general liability, workers' compensation, vehicle and equipment liability. The cost of claims under these self-insurance programs is estimated and accrued using individual case-based valuations and statistical analysis and is based upon judgment and historical experience; however, the ultimate cost of many of these claims may not be known for several years. These claims are monitored and the cost estimates are revised as developments occur relating to such claims. The Company has retained an independent third party actuary to assist in the calculation of a range of exposure for these claims. As of December 31, 2018, the Company estimates the range of exposure to be from \$15.9 million to \$20.8 million. The Company has recorded liabilities at December 31, 2018 of \$18.3 million which represents management's best estimate of probable loss.

Depreciable life of assets — RPC's net property, plant and equipment at December 31, 2018 was \$518.0 million representing 43.2 percent of the Company's consolidated assets. Depreciation and amortization expenses for the year ended December 31, 2018 were \$163.1 million. Management judgment is required in the determination of the estimated useful lives used to calculate the annual and accumulated depreciation and amortization expense.

Property, plant and equipment are reported at cost less accumulated depreciation and amortization, which is provided on a straight-line basis over the estimated useful lives of the assets. The estimated useful life represents the projected period of time that the asset will be productively employed by the Company and is determined by management based on many factors including historical experience with similar assets. Assets are monitored to ensure changes in asset lives are identified and prospective depreciation and amortization expense is adjusted accordingly. We did not make any changes to the estimated lives of assets resulting in a material impact in 2018 or 2017.

Defined benefit pension plan – In 2002, the Company ceased all future benefit accruals under the defined benefit plan, although the Company remains obligated to provide employees benefits earned through March 2002. The Company accounts for the defined benefit plan in accordance with the provisions of Financial Accounting Standards Board (FASB) ASC 715, "Compensation – Retirement Benefits" and engages an outside actuary to calculate its obligations and costs. With the assistance of the actuary, the Company evaluates the significant assumptions used on a periodic basis including the estimated future return on plan assets, the discount rate, and other factors, and makes adjustments to these liabilities as necessary.

The Company chooses an expected rate of return on plan assets based on historical results for similar allocations among asset classes, the investments strategy, and the views of our investment advisor. Differences between the expected long-term return on plan assets and the actual return are amortized over future years. Therefore, the net deferral of past asset gains (losses) ultimately affects future pension expense. The Company's assumption for the expected return on plan assets was seven percent for 2018, 2017 and 2016.

The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year. In estimating this rate, the Company utilizes a yield curve approach. The approach utilizes an economic model whereby the Company's expected benefit payments over the life of the plan are forecasted and then compared to a portfolio of investment grade corporate bonds that will mature at the same time that the benefit payments are due in any given year. The economic model then calculates the one discount rate to apply to all benefit payments over the life of the plan which will result in the same total lump sum as the payments from the corporate bonds. A lower discount rate increases the present value of benefit obligations. The discount rate was 4.65 percent as of December 31, 2018 compared to 4.00 percent as of December 31, 2017 and 4.45 percent in 2016.

As set forth in Note 11 to the Company's financial statements, included among the asset categories for the Plan's investments are real estate and alternative/ opportunistic/ special fund investments comprised of real estate funds and private equity funds. These investments are measured at net asset value and are valued using significant non-observable inputs which do not have a readily determinable fair value. These valuations are subject to judgments and assumptions of the funds which may prove to be incorrect, resulting in risks of incorrect valuation of these investments. The Company seeks to mitigate these risks by evaluating the appropriateness of the funds' judgments and assumptions by reviewing the financial data included in the funds' financial statements for reasonableness.

As of December 31, 2018, the defined benefit plan was under-funded and the recorded change within accumulated other comprehensive loss decreased stockholders' equity by \$2.0 million after tax. Holding all other factors constant, a change in the discount rate used to measure plan liabilities by 0.25 percentage points would result in a pre-tax increase or decrease of \$1.1 million to the net loss related to pension reflected in accumulated other comprehensive loss.

The Company recognized pre-tax pension (income) expense of \$(0.2) million in 2018, \$0.4 million in 2017 and \$0.7 million in 2016. Based on the under-funded status of the defined benefit plan as of December 31, 2018, the Company expects to recognize pension expense of \$261 thousand in 2019. Holding all other factors constant, a change in the expected long-term rate of return on plan assets by 0.50 percentage points would result in an increase or decrease in pension expense of \$185 thousand in 2019. Holding all other factors constant, a change in the discount rate used to measure plan liabilities by 0.25 percentage points would result in an increase or decrease in pension expense of \$10 thousand in 2019.

Recent Accounting Pronouncements

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

Recently Adopted Accounting Standards:

Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606): On January 1, 2018, the Company adopted *ASC 606, Revenue from Contracts with Customers* and all the related amendments ("new revenue standard") for all contracts using the modified retrospective method, with no cumulative-effect adjustment to retained earnings upon adoption since most of the Company's services are primarily short-term in nature and the pattern of transfer under ASC 605 is consistent with the pattern of transfer when evaluated under ASC 606. The comparative information has not been restated and continues to be reported under the accounting standards that were in effect for those periods. The adoption of the new revenue standard did not have a material impact on our consolidated financial statements. See Note 2 for expanded disclosures.

ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments make targeted improvements to existing U.S. GAAP and affects accounting for equity investments and financial instruments and liabilities and related disclosures. The Company adopted these provisions in the first quarter of 2018 and recognize the change in fair value of its equity securities as part of other income. In addition, as of the beginning of the first quarter of 2018, the Company adjusted opening retained earnings to recognize the cumulative impact of the adoption of these amendments. The Company

does not expect the adoption of these provisions to have an ongoing material impact on its consolidated financial statements.

ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments provide guidance in the presentation and classification of certain cash receipts and cash payments in the statement of cash flows including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. The Company adopted these provisions in the first quarter of 2018 and has presented the accompanying statements of cash flow in conformity with these provisions. The Company does not expect the adoption of these provisions to have an ongoing material impact on its consolidated financial statements.

ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The amendments require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments eliminate the exception for an intra-entity transfer of an asset other than inventory. The Company adopted these provisions in the first quarter of 2018, and since the Company's intra-entity transfers of property, plant and equipment are carried out at net book values, the adoption did not have a material impact on its consolidated financial statements.

ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. The Company adopted these provisions in the first quarter of 2018 and will apply these provisions as it completes future acquisitions. The Company does not expect the adoption of these provisions to have an ongoing material impact on its consolidated financial statements.

ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The provisions are applicable when there are changes to the terms or conditions of a share-based payment award. The amendments require an entity to apply modification accounting for the effects of changes to the terms and conditions of a share-based payment award unless certain conditions including fair value, vesting conditions and classification are met. The Company adopted these provisions in the first quarter of 2018 and will apply these provisions if changes to the terms or conditions of a share-based payment award are made. The Company does not expect the adoption of these provisions to have an ongoing material impact on its consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted:

To be adopted in 2019:

ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments provide an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded and require expanded disclosures regarding the Company's accounting policy decisions on such reclassification. The amendments are effective starting in the first quarter of 2019, with early adoption permitted. The Company is currently evaluating the impact of adopting these provisions on its consolidated financial statements.

ASU No. 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments expand the scope of ASU 718 to include share-based payments issued to nonemployees for goods or services, thereby substantially aligning the accounting for share-based payments to nonemployees and employees. The amendments are effective starting in the first quarter of 2019. The Company currently does not expect the adoption of these provisions to have a material impact on its consolidated financial statements.

Leases (Topic 842). Under this guidance, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease), at the commencement of the lease term. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to certain adjustments, including initial direct costs and lessor provided incentives. The Company adopted the standard on January 1, 2019 using the optional transition method and the cumulative-effect adjustment to the opening balance of retained earnings was not material. All of the Company's leases are currently classified as operating leases and the Company expects to record approximately \$47 million in right-of-use assets and lease liabilities from operating leases.

To be adopted in 2020 and later:

ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments require the credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration to be presented as an allowance rather than a write-down. It also allows recording of credit loss reversals in current period net income. The amendments are effective starting in the first quarter of 2020 with early application permitted a year earlier. The Company is currently evaluating the impact of adopting these provisions on its consolidated financial statements.

ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments are effective for annual or any interim goodwill impairment tests beginning in 2020 applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of adopting these provisions on its consolidated financial statements.

ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments reduce the complexity for the accounting for costs of implementing a cloud computing service arrangement and align the requirements for capitalizing implementation costs that are incurred in a hosting arrangement that is a service contract with the costs incurred to develop or obtain internal-use software. The provisions may be applied prospectively or retrospectively. The amendments are effective starting in the first quarter of 2020, with early adoption permitted. The Company is currently evaluating the impact of adopting these provisions on its consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company is subject to interest rate risk exposure through borrowings on its revolving credit facility. As of December 31, 2018, there are no outstanding interest-bearing advances on our credit facility which bear interest at a floating rate.

Additionally, the Company is exposed to market risk resulting from changes in foreign exchange rates. However, since the majority of the Company's transactions occur in U.S. currency, this risk is not expected to have a material effect on its consolidated results of operations or financial condition.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Stockholders of RPC, Inc.:

The management of RPC, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. RPC, Inc. maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that assets are safeguarded against loss or unauthorized use and that the financial records are adequate and can be relied upon to produce financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control system is augmented by written policies and procedures, an internal audit program and the selection and training of qualified personnel. This system includes policies that require adherence to ethical business standards and compliance with all applicable laws and regulations.

There are inherent limitations to the effectiveness of any controls system. A controls system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the controls system are met. Also, no evaluation of controls can provide absolute assurance that all control issues and any instances of fraud, if any, within the Company will be detected. Further, the design of a controls system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The Company intends to continually improve and refine its internal controls.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our internal control over financial reporting as of December 31, 2018 based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management's assessment is that RPC, Inc. maintained effective internal control over financial reporting as of December 31, 2018.

The independent registered public accounting firm, Grant Thornton LLP, has audited the consolidated financial statements as of and for the year ended December 31, 2018, and has also issued their report on the effectiveness of the Company's internal control over financial reporting, included in this report on page 33.

/s/ Richard A. Hubbell
Richard A. Hubbell
President and Chief Executive Officer

/s/ Ben M. Palmer
Ben M. Palmer
Vice President, Chief Financial Officer and Corporate
Secretary

Atlanta, Georgia

February 28, 2019

32

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

RPC, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of RPC, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2018, and our report dated February 28, 2019 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

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

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

/s/ GRANT THORNTON LLP

Atlanta, Georgia

February 28, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

RPC, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of RPC, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule under Item 15(2) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 28, 2019 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to

those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2004.

Atlanta, Georgia

February 28, 2019

Item 8. Financial Statements and Supplementary Data

CONSOLIDATED BALANCE SHEETS
RPC, INC. AND SUBSIDIARIES

(in thousands except share information)

December 31,	2018	2017
ASSETS		
Cash and cash equivalents	\$ 116,262	\$ 91,050
Accounts receivable, net	323,533	377,853
Inventories	130,083	114,866
Income taxes receivable	35,832	40,243
Prepaid expenses	9,766	8,992
Other current assets	3,462	7,131
Current assets	618,938	640,135
Property, plant and equipment, net	517,982	443,928
Goodwill	32,150	32,150
Other assets	30,510	31,011
Total assets	\$ 1,199,580	\$ 1,147,224
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable	\$ 103,401	\$ 103,462
Accrued payroll and related expenses	25,715	23,577
Accrued insurance expenses	6,183	5,299
Accrued state, local and other taxes	3,081	8,655
Income taxes payable	4,706	3,224
Other accrued expenses	151	1,143
Current liabilities	143,237	145,360
Long-term accrued insurance expenses	12,072	10,376
Long-term pension liabilities	29,638	35,635
Deferred income taxes	60,375	39,437
Other long-term liabilities	3,839	4,719
Total liabilities	249,161	235,527
Commitments and contingencies (Note 9)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.10 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, \$0.10 par value, 349,000,000 shares authorized, 214,543,511 and 216,543,552 shares issued and outstanding in 2018 and 2017, respectively	21,454	21,654

Edgar Filing: RPC INC - Form 10-K

Capital in excess of par value	—	—
Retained earnings	947,711	906,745
Accumulated other comprehensive loss	(18,746)	(16,702)
Total stockholders' equity	950,419	911,697
Total liabilities and stockholders' equity	\$1,199,580	\$1,147,224

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
RPC, INC. AND SUBSIDIARIES

(in thousands except per share data)

Years ended December 31,	2018	2017	2016
REVENUES	\$1,721,005	\$1,595,227	\$728,974
COSTS AND EXPENSES:			
Cost of revenues (exclusive of items shown separately below)	1,183,048	1,050,809	607,888
Selling, general and administrative expenses	168,151	159,194	150,690
Depreciation and amortization	163,120	163,537	217,258
Gain on disposition of assets, net	(3,344)	(4,530)	(7,920)
Operating profit (loss)	210,030	226,217	(238,942)
Interest expense	(489)	(426)	(681)
Interest income	2,426	1,494	467
Other income (expense), net	9,313	5,531	(204)
Income (loss) before income taxes	221,280	232,816	(239,360)
Income tax provision (benefit)	45,878	70,305	(98,114)
Net income (loss)	\$175,402	\$162,511	\$(141,246)
EARNINGS (LOSS) PER SHARE			
Basic	\$0.82	\$0.75	\$(0.66)
Diluted	\$0.82	\$0.75	\$(0.66)
Dividends paid per share	\$0.47	\$0.20	\$0.05

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

RPC, INC. AND SUBSIDIARIES

(in thousands except per share data)

Years ended December 31,	2018	2017	2016
NET INCOME (LOSS)	\$175,402	\$162,511	\$(141,246)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES:			
Pension adjustment	(1,408)	1,033	(788)
Foreign currency translation	(621)	391	652
Unrealized (loss) gain on securities, net reclassification adjustments	—	(24)	3
COMPREHENSIVE INCOME (LOSS)	\$173,373	\$163,911	\$(141,379)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
RPC, INC. AND SUBSIDIARIES

(in thousands)

Three Years Ended	Common Stock		Capital in	Retained	Accumulated	Total
	Shares	Amount	Excess of Par Value	Earnings	Other Comprehensive Income (Loss)	
December 31, 2018						
Balance, December 31, 2015	216,991	\$21,699	\$—	\$948,551	\$ (17,969)) \$952,281
Stock issued for stock incentive plans, net	796	80	9,508	—	—	9,588
Stock purchased and retired	(298)	(30)	(9,935)	6,708	—	(3,257)
Net loss	—	—	—	(141,246)	—	(141,246)
Pension adjustment, net of taxes	—	—	—	—	(788)	(788)
Foreign currency translation	—	—	—	—	652	652
Unrealized gain on securities, net of taxes and reclassification adjustment	—	—	—	—	3	3
Dividends declared	—	—	—	(10,861)	—	(10,861)
Excess tax benefits for share-based payments	—	—	427	—	—	427
Balance, December 31, 2016	217,489	21,749	—	803,152	(18,102)) 806,799
Stock issued for stock incentive plans, net	420	42	11,048	—	—	11,090
Stock purchased and retired	(1,365)	(137)	(11,048)	(15,599)	—	(26,784)
Net income	—	—	—	162,511	—	162,511
Pension adjustment, net of taxes	—	—	—	—	1,033	1,033
Foreign currency translation	—	—	—	—	391	391
Unrealized loss on securities, net of taxes and reclassification adjustment	—	—	—	—	(24)	(24)
Dividends declared	—	—	—	(43,319)	—	(43,319)
Balance, December 31, 2017	216,544	21,654	—	906,745	(16,702)) 911,697
Adoption of accounting standard (Note 1)	—	—	—	15	(15)	—
Stock issued for stock incentive plans, net	367	37	9,382	—	—	9,419
Stock purchased and retired	(2,367)	(237)	(9,382)	(33,382)	—	(43,001)
Net income	—	—	—	175,402	—	175,402
Pension adjustment, net of taxes	—	—	—	—	(1,408)	(1,408)
Foreign currency translation	—	—	—	—	(621)	(621)
Dividends declared	—	—	—	(101,069)	—	(101,069)
Balance, December 31, 2018	214,544	\$21,454	\$—	\$947,711	\$ (18,746)) \$950,419

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
RPC, Inc. and Subsidiaries

(in thousands)

Years ended December 31,	2018	2017	2016
OPERATING ACTIVITIES			
Net income (loss)	\$ 175,402	\$ 162,511	\$(141,246)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and other non-cash charges	166,789	166,558	221,038
Stock-based compensation expense	9,419	11,090	10,218
Gain on disposition of assets, net	(3,344)	(4,530)	(7,920)
Gain due to insurance recovery	(9,646)	—	—
Gain due to benefit plan financing arrangement	(1,020)	—	—
Deferred income tax provision (benefit)	21,395	(42,609)	(34,209)
Excess tax benefits for share-based payments	—	—	(427)
(Increase) decrease in assets:			
Accounts receivable	53,982	(208,642)	64,715
Income taxes receivable	4,410	16,931	(5,355)
Inventories	(15,660)	(6,275)	20,294
Prepaid expenses	(778)	(2,272)	2,244
Other current assets	3,375	(1,222)	2
Other non-current assets	1,494	(4,779)	(1,851)
Increase (decrease) in liabilities:			
Accounts payable	(7,754)	29,176	(6,250)
Income taxes payable	1,482	(1,705)	(2,710)
Accrued payroll and related expenses	2,193	11,408	(4,540)
Accrued insurance expenses	884	1,200	(197)
Accrued state, local and other taxes	(5,574)	5,561	256
Other accrued expenses	(994)	(5,335)	5,017
Pension liabilities	(7,862)	4,398	(1,385)
Long-term accrued insurance expenses	1,696	839	(1,811)
Other long-term liabilities	(880)	1,401	(14,179)
Net cash provided by operating activities	389,009	133,704	101,704
INVESTING ACTIVITIES			
Capital expenditures	(242,610)	(117,509)	(33,938)
Proceeds from sale of assets	13,237	13,123	12,599
Proceeds from insurance recovery	9,646	—	—
Proceeds from benefit plan financing arrangement	2,218	—	—
Re-investment in benefit plan financing arrangement	(2,218)	—	—
Net cash used for investing activities	(219,727)	(104,386)	(21,339)
FINANCING ACTIVITIES			
Payment of dividends	(101,069)	(43,319)	(10,861)
Debt issue costs for notes payable to banks	—	—	(35)

Edgar Filing: RPC INC - Form 10-K

Excess tax benefits for share-based payments	—	—	427
Cash paid for common stock purchased and retired	(43,001)	(26,784)	(3,257)
Net cash used for financing activities	(144,070)	(70,103)	(13,726)
Net increase (decrease) in cash and cash equivalents	25,212	(40,785)	66,639
Cash and cash equivalents at beginning of year	91,050	131,835	65,196
Cash and cash equivalents at end of year	\$ 116,262	\$ 91,050	\$ 131,835

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RPC, Inc. and Subsidiaries

Years ended December 31, 2018, 2017 and 2016

Note 1: Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of RPC, Inc. and its wholly-owned subsidiaries (“RPC” or the “Company”). All significant intercompany accounts and transactions have been eliminated.

Common Stock

RPC is authorized to issue 349,000,000 shares of common stock, \$0.10 par value. Holders of common stock are entitled to receive dividends when, as, and if declared by the Board of Directors out of legally available funds. Each share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. Holders of common stock do not have cumulative voting rights. In the event of any liquidation, dissolution or winding up of the Company, holders of common stock are entitled to ratable distribution of the remaining assets available for distribution to stockholders.

Preferred Stock

RPC is authorized to issue up to 1,000,000 shares of preferred stock, \$0.10 par value. As of December 31, 2018, there were no shares of preferred stock issued. The Board of Directors is authorized, subject to any limitations prescribed by law, to provide for the issuance of preferred stock as a class without series or, if so determined from time to time, in one or more series, and by filing a certificate pursuant to the applicable laws of the state of Delaware and to fix the designations, powers, preferences and rights, exchangeability for shares of any other class or classes of stock. Any preferred stock to be issued could rank prior to the common stock with respect to dividend rights and rights on liquidation.

Dividends

On January 22, 2019, the Board of Directors declared a regular quarterly cash dividend of \$0.10 per share payable March 11, 2019 to common stockholders of record at the close of business on February 11, 2019. Subject to industry conditions and RPC's earnings, financial condition, and other relevant factors, the Company expects to continue to pay regular quarterly cash dividends to common stockholders.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates are used in the determination of the allowance for doubtful accounts, income taxes, accrued insurance expenses, depreciable lives of assets, and pension liabilities.

Revenues

RPC recognizes revenues from contracts with its customers based on the amount of consideration it receives in exchange for the services provided. See Note 2 for additional information.

Concentration of Credit Risk

Substantially all of the Company's customers are engaged in the oil and gas industry. This concentration of customers may impact overall exposure to credit risk, either positively or negatively, in that customers may be similarly affected by changes in economic and industry conditions. The Company provided oilfield services to several hundred customers during each of the last three years. There was no customer that accounted for more than 10 percent of the Company's revenues in 2018, 2017 or 2016. Additionally, there was no customer that accounted for more than 10 percent of accounts receivable as of December 31, 2018 or 2017.

Cash and Cash Equivalents

Highly liquid investments with original maturities of three months or less when acquired are considered to be cash equivalents. The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits. RPC maintains cash equivalents and investments in one or more large financial institutions, and RPC's policy restricts investment in any securities rated less than "investment grade" by national rating services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RPC, Inc. and Subsidiaries

Years ended December 31, 2018, 2017 and 2016

Investments

Investments classified as available-for-sale securities are stated at their fair values, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. The cost of securities sold is based on the specific identification method. Realized gains and losses, declines in value judged to be other than temporary, interest, and dividends with respect to available-for-sale securities are included in interest income. The Company realized no gains or losses on its available-for-sale securities during 2018 and 2017, and an immaterial realized loss during 2016. Securities that are held in the non-qualified Supplemental Executive Retirement Plan ("SERP") are classified as trading. See Note 11 for further information regarding the SERP. The change in fair value of trading securities is presented as compensation cost in selling, general and administrative expenses on the consolidated statements of operations.

Management determines the appropriate classification of investments at the time of purchase and re-evaluates such designations as of each balance sheet date.

Accounts Receivable

The majority of the Company's accounts receivable is due principally from major and independent oil and natural gas exploration and production companies. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are considered past due after 60 days and are stated at amounts due from customers, net of an allowance for doubtful accounts.

Allowance for Doubtful Accounts

Accounts receivable are carried at the amounts due from customers, reduced by an allowance for estimated amounts that may not be collectible in the future. The estimated allowance for doubtful accounts is based on an evaluation of industry trends, financial condition of customers, historical write-off experience, current economic conditions, and in the case of international customers, judgments about the economic and political environment of the related country

and region. Accounts are written off against the allowance for doubtful accounts when the Company determines that amounts are uncollectible and recoveries of previously written-off accounts are recorded when collected.

Inventories

Inventories, which consist principally of (i) raw materials and supplies that are consumed providing services to the Company's customers, (ii) spare parts for equipment used in providing these services and (iii) components and attachments for manufactured equipment used in providing services, are recorded at the lower of cost and net realizable value. Cost is determined using first-in, first-out ("FIFO") method or the weighted average cost method. 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 regularly reviews inventory quantities on hand and records a write-down for excess or obsolete inventory based primarily on its estimated forecast of product demand, market conditions, production requirements and technological developments.

Property, Plant and Equipment

Property, plant and equipment, including software costs, are reported at cost less accumulated depreciation and amortization, which is provided on a straight-line basis over the estimated useful lives of the assets. Annual depreciation and amortization expenses are computed using the following useful lives: operating equipment, 3 to 20 years; buildings and leasehold improvements, 15 to 39 years or the life of the lease; furniture and fixtures, 5 to 7 years; software, 5 years; and vehicles, 3 to 5 years. The cost of assets retired or otherwise disposed of and the related accumulated depreciation and amortization are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to income from operations. Expenditures for additions, major renewals, and betterments are capitalized. Expenditures for restoring an identifiable asset to working condition or for maintaining the asset in good working order constitute repairs and maintenance and are expensed as incurred.

RPC records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The Company periodically reviews the values assigned to long-lived assets, such as property, plant and equipment, to determine if any impairments should be recognized. Management believes that the long-lived assets in the accompanying balance sheets have not been impaired. During 2016, RPC recorded immaterial write-downs on certain equipment to comply with the Company's policy to store and maintain key equipment in an efficient manner.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*RPC, Inc. and Subsidiaries**Years ended December 31, 2018, 2017 and 2016***Goodwill**

Goodwill represents the excess of the purchase price over the fair value of net assets of businesses acquired. The carrying amount of goodwill by reportable segment was as follows:

Years Ended December 31,	2018	2017
(in thousands)		
Technical Services	\$30,992	\$30,992
Support Services	1,158	1,158
Goodwill	\$32,150	\$32,150

Goodwill is reviewed annually, or more frequently, if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount, for impairment. In 2018 and 2017, the Company performed a quantitative impairment test by estimating the fair value of each of its reporting units using a discounted cash flow analysis based on management's short-term and long-term forecast of operating results. The discounted cash flow analysis for each reporting unit includes assumptions regarding discount rates, revenue growth rates, expected profitability margins, forecasted capital expenditures, and the timing of expected future cash flows. Based on the analysis, the Company concluded that the fair value of its reporting units exceeded their carrying amount and therefore no impairment of goodwill occurred for the years ended December 31, 2018 and 2017. The Company completed a comprehensive qualitative assessment of the various factors that impact goodwill for the year ended December 31, 2016, and concluded it is more likely than not that the fair value of its reporting units exceeded their carrying amounts as of the annual test date and therefore no impairment of its goodwill occurred for the year ended December 31, 2016.

Advertising

Advertising expenses are charged to expense during the period in which they are incurred. Advertising expenses totaled \$2,220,000 in 2018, \$1,696,000 in 2017, and \$1,296,000 in 2016.

Insurance Expenses

RPC self-insures, up to certain policy-specified limits, certain risks related to general liability, workers' compensation, vehicle and equipment liability, and employee health insurance plan costs. The estimated cost of claims under these self-insurance programs is estimated and accrued as the claims are incurred (although actual settlement of the claims may not be made until future periods) and may subsequently be revised based on developments relating to such claims. The portion of these estimated outstanding claims expected to be paid more than one year in the future is classified as long-term accrued insurance expenses.

Income Taxes

Deferred tax liabilities and assets are determined based on the difference between the financial and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The newly enacted Tax Cuts and Jobs Act required the revaluation of our deferred tax assets and liabilities to reflect the change in Federal income tax rates from 35 percent to 21 percent. The Company's net deferred tax liability as of December 31, 2018 has been reduced through a discrete income tax provision adjustment of \$19.3 million related to this rate change. The Company establishes a valuation allowance against the carrying value of deferred tax assets when the Company determines that it is more likely than not that the asset will not be realized through future taxable income.

Defined Benefit Pension Plan

The Company has a defined benefit pension plan that provides monthly benefits upon retirement at age 65 to eligible employees with at least one year of service prior to 2002. In 2002, the Company's Board of Directors approved a resolution to cease all future retirement benefit accruals under the defined benefit pension plan. See Note 11 for a full description of this plan and the related accounting and funding policies.

Share Repurchases

The Company records the cost of share repurchases in stockholders' equity as a reduction to common stock to the extent of par value of the shares acquired and the remainder is allocated to capital in excess of par value and retained earnings if capital in excess of par value is depleted. The Company tracks capital in excess of par value on a cumulative basis for each reporting period, discloses the excess over capital in excess of par value as part of stock purchased and retired in the consolidated statements of stockholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*RPC, Inc. and Subsidiaries**Years ended December 31, 2018, 2017 and 2016***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. In addition, the Company has periodically issued share-based payment awards that contain non-forfeitable rights to dividends and are therefore considered participating securities. See Note 11 for further information on restricted stock granted to employees.

Restricted shares of common stock (participating securities) outstanding and a reconciliation of weighted average shares outstanding is as follows:

<i>(In thousands except per share data)</i>	2018	2017	2016
Net income (loss) available for stockholders	\$175,402	\$162,511	\$(141,246)
Less: Adjustments for losses attributable to participating securities	(1,839)	(2,102)	(147)
Net income (loss) used in calculating per share amounts	\$173,563	\$160,409	\$(141,393)
Weighted average shares outstanding (including participating securities)	215,198	217,194	217,509
Adjustment for participating securities	(2,453)	(2,891)	(3,282)
Shares used in calculating basic and diluted earnings (loss) per share	212,745	214,303	214,227

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, investments, accounts payable, and debt. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term nature of such instruments. The Company's investments are classified as available-for-sale securities with the exception of investments held in the non-qualified Supplemental Executive Retirement Plan ("SERP") which are classified as trading securities. All of these securities are carried at fair value in the accompanying consolidated balance sheets. See Note 9 for additional information.

Stock-Based Compensation

Stock-based compensation expense is recognized for all share-based payment awards, net estimated forfeitures. Thus, compensation cost is amortized for those shares expected to vest on a straight-line basis over the requisite service period of the award. See Note 11 for additional information.

Recent Accounting Pronouncements

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

Recently Adopted Accounting Standards:

Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606): On January 1, 2018, the Company adopted *ASC 606, Revenue from Contracts with Customers* and all the related amendments (“new revenue standard”) for all contracts using the modified retrospective method, with no cumulative-effect adjustment to retained earnings upon adoption since most of the Company’s services are primarily short-term in nature and the pattern of transfer under ASC 605 is consistent with the pattern of transfer when evaluated under ASC 606. The comparative information has not been restated and continues to be reported under the accounting standards that were in effect for those periods. The adoption of the new revenue standard did not have a material impact on our consolidated financial statements. See Note 2 for expanded disclosures.

ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments make targeted improvements to existing U.S. GAAP and affects accounting for equity investments and financial instruments and liabilities and related disclosures. The Company adopted these provisions in the first quarter of 2018 and recognize the change in fair value of its equity securities as part of other income. In addition, as of the beginning of the first quarter of 2018, the Company adjusted opening retained earnings to recognize the cumulative impact of the adoption of these amendments. The Company does not expect the adoption of these provisions to have an ongoing material impact on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RPC, Inc. and Subsidiaries

Years ended December 31, 2018, 2017 and 2016

ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments provide guidance in the presentation and classification of certain cash receipts and cash payments in the statement of cash flows including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. The Company adopted these provisions in the first quarter of 2018 and has presented the accompanying statements of cash flow in conformity with these provisions. The Company does not expect the adoption of these provisions to have an ongoing material impact on its consolidated financial statements.

ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The amendments require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments eliminate the exception for an intra-entity transfer of an asset other than inventory. The Company adopted these provisions in the first quarter of 2018, and since the Company's intra-entity transfers of property, plant and equipment are carried out at net book values, the adoption did not have a material impact on its consolidated financial statements.

ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. The Company adopted these provisions in the first quarter of 2018 and will apply these provisions as it completes future acquisitions. The Company does not expect the adoption of these provisions to have an ongoing material impact on its consolidated financial statements.

ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The provisions are applicable when there are changes to the terms or conditions of a share-based payment award. The amendments require an entity to apply modification accounting for the effects of changes to the terms and conditions of a share-based payment award unless certain conditions including fair value, vesting conditions and classification are met. The Company adopted these provisions in the first quarter of 2018 and will apply these provisions if changes to the terms or conditions of a share-based payment award are made. The Company does not expect the adoption of these provisions to have an ongoing material impact on its consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted:

To be adopted in 2019:

ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments provide an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded and require expanded disclosures regarding the Company's accounting policy decisions on such reclassification. The amendments are effective starting in the first quarter of 2019, with early adoption permitted. The Company is currently evaluating the impact of adopting these provisions on its consolidated financial statements.

ASU No. 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments expand the scope of ASU 718 to include share-based payments issued to nonemployees for goods or services, thereby substantially aligning the accounting for share-based payments to nonemployees and employees. The amendments are effective starting in the first quarter of 2019. The Company currently does not expect the adoption of these provisions to have a material impact on its consolidated financial statements.

Leases (Topic 842). Under this guidance, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease), at the commencement of the lease term. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to certain adjustments, including initial direct costs and lessor provided incentives. The Company adopted the standard on January 1, 2019 using the optional transition method and the cumulative-effect adjustment to the opening balance of retained earnings was not material. All of the Company's leases are currently classified as operating leases and the Company expects to record approximately \$47 million in right-of-use assets and lease liabilities from operating leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RPC, Inc. and Subsidiaries

Years ended December 31, 2018, 2017 and 2016

To be adopted in 2020 and later:

ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments require the credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration to be presented as an allowance rather than a write-down. It also allows recording of credit loss reversals in current period net income. The amendments are effective starting in the first quarter of 2020 with early application permitted a year earlier. The Company is currently evaluating the impact of adopting these provisions on its consolidated financial statements.

ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments are effective for annual or any interim goodwill impairment tests beginning in 2020 applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of adopting these provisions on its consolidated financial statements.

ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments reduce the complexity for the accounting for costs of implementing a cloud computing service arrangement and align the requirements for capitalizing implementation costs that are incurred in a hosting arrangement that is a service contract with the costs incurred to develop or obtain internal-use software. The provisions may be applied prospectively or retrospectively. The amendments are effective starting in the first quarter of 2020, with early adoption permitted. The Company is currently evaluating the impact of adopting these provisions on its consolidated financial statements.

Note 2: Revenues

Accounting Policy

RPC's contract revenues are generated principally from providing oilfield services. These services are based on mutually agreed upon pricing with the customer prior to the services being delivered and, given the nature of the services, do not include the right of return. Pricing for these services is a function of rates based on the nature of the specific job, with consideration for the extent of equipment, labor, and consumables needed for the job. RPC typically satisfies its performance obligations over time as the services are performed. RPC records revenues based on the transaction price agreed upon with its customers.

Sales tax charged to customers is presented on a net basis within the consolidated statements of operations and therefore excluded from revenues.

Nature of services

RPC provides a broad range of specialized oilfield services to independent and major oil and gas companies engaged in the exploration, production and development of oil gas properties throughout the United States and in selected international markets. RPC manages its business as either (1) services offered on the well site with equipment and personnel (Technical Services) or (2) services and tools offered off the well site (Support Services). For more detailed information about operating segments, see Note 13.

RPC contracts with its customers to provide the following services by reportable segment:

Technical Services

Includes pressure pumping, downhole tools services, coiled tubing, nitrogen, snubbing and other oilfield related services including wireline, well control, fishing and pump down services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RPC, Inc. and Subsidiaries

Years ended December 31, 2018, 2017 and 2016

Support Services

Rental tools – RPC rents tools to its customers for use with onshore and offshore oil and gas well drilling, completion and workover activities.

Other support services include oilfield pipe inspection services, pipe management and pipe storage; well control training and consulting.

Our contracts with customers are generally very short-term in nature and generally consist of a single performance obligation – the provision of oil field services.

Payment terms

RPC's contracts with the customer states the final terms of the sales, including the description, quantity, and price of each service to be delivered. The Company's contracts are generally short-term in nature and in most situations, RPC provides services ahead of payment - i.e., RPC has fulfilled the performance obligation prior to submitting a customer invoice. RPC invoices the customer upon completion of the specified services and collection generally occurs between 30 to 60 days after invoicing. As the Company enters into contracts with its customers, it generally expects there to be no significant timing difference between the date the services are provided to the customer (satisfaction of the performance obligation) and the date cash consideration is received. Accordingly, there is no financing component to our arrangements with customers.

Significant judgments

RPC believes the output method is a reasonable measure of progress for the satisfaction of our performance obligations, which are satisfied over time, as it provides a faithful depiction of (1) our performance toward complete satisfaction of the performance obligation under the contract and (2) the value transferred to the customer of the

services performed under the contract. RPC has elected the right to invoice practical expedient for recognizing revenue related to its performance obligations.

Disaggregation of revenues

See Note 13 for disaggregation of revenue by operating segment and services offered in each of them and by geographic regions. Timing of revenue recognition for each of the periods presented is shown below:

(in thousands)	2018	2017	2016
Oil field services transferred at a point in time	\$-	\$-	\$-
Oil field services transferred over time	1,721,005	1,595,227	728,974
Total revenues	\$1,721,005	\$1,595,227	\$728,974

Contract balances

Contract assets representing the Company's rights to consideration for work completed but not billed are included in Accounts receivable, net on the Consolidated Balance Sheets are shown below:

(in thousands)	2018	2017
Unbilled trade receivables	\$56,408	\$68,494

Substantially all of the unbilled trade receivables as of December 31, 2018 and December 31, 2017 were invoiced during the following quarter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*RPC, Inc. and Subsidiaries**Years ended December 31, 2018, 2017 and 2016***Note 3: Accounts Receivable**

Accounts receivable, net consists of the following:

December 31, (in thousands)	2018	2017
Trade receivables:		
Billed	\$266,660	\$296,588
Unbilled	56,408	68,494
Other receivables	5,278	17,242
Total	328,346	382,324
Less: allowance for doubtful accounts	(4,813)	(4,471)
Accounts receivable, net	\$323,533	\$377,853

Trade receivables relate to revenues generated from equipment and services, for which credit is extended based on our evaluation of the customer's credit worthiness. Unbilled receivables represent revenues earned but not billed to the customer until future dates, usually within one month. Other receivables consists primarily of net amounts receivable from an agent, that operates internationally, as well as amounts due from the favorable resolution of state tax audits and rebates due from suppliers.

Changes in the Company's allowance for doubtful accounts are as follows:

Years Ended December 31,	2018	2017
(in thousands)		
Beginning balance	\$4,471	\$2,553
Bad debt expense	588	1,441
Accounts written-off	(260)	(105)
Recoveries	14	582
Ending balance	\$4,813	\$4,471

Note 4: Inventories

Inventories are \$130,083,000 at December 31, 2018 and \$114,866,000 at December 31, 2017 and consist of raw materials, parts and supplies. The reserve for obsolete and slow moving inventory is \$10,168,000 at December 31, 2018 and \$3,875,000 at December 31, 2017.

Note 5: Property, Plant and Equipment

Property, plant and equipment are presented at cost net of accumulated depreciation and consist of the following:

December 31, (in thousands)	2018	2017
Land	\$21,159	\$19,991
Buildings and leasehold improvements	140,269	138,072
Operating equipment	1,429,906	1,419,670
Computer software	24,619	23,017
Furniture and fixtures	7,606	7,656
Vehicles	528,250	494,833
Gross property, plant and equipment	2,151,809	2,103,239
Less: accumulated depreciation	(1,633,827)	(1,659,311)
Net property, plant and equipment	\$517,982	\$443,928

Depreciation expense was \$166.2 million in 2018, \$166.9 million in 2017, and \$220.6 million in 2016, and includes amounts recorded as costs of revenues. There were no capital leases outstanding as of December 31, 2018 and December 31, 2017. The Company had accounts payable for purchases of property and equipment of \$14.8 million as of December 31, 2018, \$7.1 million as of December 31, 2017, and \$3.4 million as of December 31, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RPC, Inc. and Subsidiaries

Years ended December 31, 2018, 2017 and 2016

Note 6: Income Taxes

The Tax Cuts and Jobs Act (“the Act”) effective January 1, 2018, included a reduction to the US federal tax rate from 35 percent to 21 percent, a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, adjustment of deferred tax assets and liabilities for the new corporate tax rate, and adjustments to deductible compensation of our executive officers. The Act also imposes a new tax on foreign earnings and profits in excess of a deemed return on tangible assets of foreign subsidiaries referred to as Global Low Taxed Intangible Income (“GILTI”), a new tax on certain payments between a U.S. corporation and its foreign subsidiaries referred to as Base Erosion and Anti-Abuse Minimum Tax (“BEAT”), and a tax deduction on certain qualifying income related to export sales of property or services referred to as Foreign Derived Intangible Income (“FDII”).

The Company applied the guidance in SAB 118 when accounting for the enactment-date effects of the Act in 2017 and throughout 2018. In 2017, the Company recorded a discrete tax benefit of \$19.3 million related to the enactment-date effects of the Act that included adjustments to the Company’s net deferred tax liabilities. In 2018, the Company adjusted the enactment-date provisional amounts by decreasing tax expense by an additional \$5.1 million, recorded as a discrete tax benefit. These adjustments were recorded as components of income tax expense from continuing operations. As of December 31, 2018, the Company has completed its accounting for all of the enactment-date income tax effects of the Act. Discussion of specific provisions of the Act follows:

One-time transition tax

The one-time transition tax is based on the Company’s total post-1986 foreign earnings and profits (E&P), a tax that was previously deferred until repatriation of those earnings and profits. At December 31, 2017, the Company estimated the one-time transitional tax to be not material and no provision was included as a component of tax expense in 2017.

Based on further analysis of the Act, and notices and regulations issued by the US Department of the Treasury and the Internal Revenue Service, the Company concluded that the tax impact of the Act from un-repatriated earnings and profits of our foreign subsidiaries was not material.

Executive compensation arrangements

As of December 31, 2017, we evaluated the deductibility of our executive compensation arrangements and the related impacts on both current and deferred taxes based on the guidance that was available at that time. At December 31, 2017, we recorded tax expense related to executive compensation of approximately \$1.3 million. During 2018, with additional guidance from the US Department of Treasury and the Internal Revenue Service, we refined our calculations, and reduced our 2017 provisional expense by approximately \$0.5 million.

GILTI

Our analysis at December 31, 2017, related to GILTI was incomplete, and therefore did not record a GILTI-related adjustment. Under FASB guidance, the Company elected to treat tax related to GILTI as a period expense rather than create a deferred tax for the temporary differences that are expected to reverse in future years. As of December 31, 2018, the impact of the Act on the Company related to Global Low Taxed Intangible Income was not material.

BEAT

The Company has analyzed the Act's provisions related to Base Erosion and Profit Shifting, and has determined the impact to our financial statements to be not material. No provision was included as a component of tax expense in either 2017 or 2018.

In summary, due to the complexity of the FDII, GILTI, and BEAT provisions of the Act, the Company is continuing to evaluate their impact in 2018. At this time, the Company has incorporated its best estimate for each of these provisions within the annual effective tax rate for 2018. The Company will continue to monitor developments as new information becomes available with respect to each of FDII, GILTI or BEAT and anticipates refining the calculations in connection with the filing of its 2018 US federal income tax return.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*RPC, Inc. and Subsidiaries**Years ended December 31, 2018, 2017 and 2016*

The following table lists the components of the provision (benefit) for income taxes:

Years ended December 31, (in thousands)	2018	2017	2016
Current provision (benefit):			
Federal	\$13,708	\$95,995	\$(43,993)
State	3,932	13,966	(24,479)
Foreign	6,843	2,953	4,567
Deferred provision (benefit):			
Federal	23,203	(39,710)	(31,505)
State	(1,808)	(2,899)	(2,704)
Total income tax provision (benefit)	\$45,878	\$70,305	\$(98,114)

Reconciliation between the federal statutory rate and RPC's effective tax rate is as follows:

Years ended December 31,	2018	2017	2016
Federal statutory rate	21.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.6	1.9	1.3
Tax credits	(0.1)	(0.7)	0.1
Non-deductible expenses	1.8	2.0	(0.7)
Change in contingencies	—	—	6.6
Adjustments related to the Act	(2.3)	(8.3)	—
Adjustments related to vesting of restricted stock	(0.8)	(1.2)	—
Other	(1.5)	1.5	(1.3)
Effective tax rate	20.7%	30.2%	41.0%

Significant components of the Company's deferred tax assets and liabilities are as follows:

December 31, (in thousands)	2018	2017
Deferred tax assets:		

Edgar Filing: RPC INC - Form 10-K

Self-insurance	\$5,055	\$4,660
Pension	7,261	8,730
State net operating loss carryforwards	1,663	4,048
Bad debt	1,291	1,149
Accrued payroll	1,416	1,117
Stock-based compensation	3,501	3,612
Foreign tax credits	—	3,592
All others	3,166	1,681
Valuation allowance	(445)	(3,994)
Gross deferred tax assets	22,908	24,595
Deferred tax liabilities:		
Depreciation	(71,647)	(53,119)
Goodwill amortization	(6,587)	(6,450)
Basis differences in consolidated limited liability company	(4,636)	(4,102)
Basis differences in joint ventures	(408)	(355)
All others	(5)	(6)
Gross deferred tax liabilities	(83,283)	(64,032)
Net deferred tax liabilities	\$(60,375)	\$(39,437)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RPC, Inc. and Subsidiaries

Years ended December 31, 2018, 2017 and 2016

The Company's current intention is to permanently reinvest funds held in our foreign subsidiaries outside of the U.S., with the possible exception of repatriation of funds that have been previously subject to U.S. federal and state taxation or when it would be tax effective through the utilization of foreign tax credits, or would otherwise create no additional U.S. tax cost.

As of December 31, 2018, the Company has net operating loss carryforwards related to state income taxes of \$27.6 million (gross) that will expire between 2019 and 2035. As of December 31, 2018, the Company has a valuation allowance of \$390 thousand, representing the tax-affected amount of loss carryforwards that the Company does not expect to utilize, against the corresponding deferred tax asset.

Additionally, as of December 31, 2018, the Company has capital loss carryforwards of \$56 thousand that are not expected to be utilized, and have a full valuation allowance against the corresponding deferred tax assets.

Total net income tax payments (refunds) were \$18.0 million in 2018, \$98.0 million in 2017, and \$(42.4) million in 2016.

The Company and its subsidiaries are subject to U.S. federal and state income taxes in multiple jurisdictions. In many cases, our uncertain tax positions are related to tax years that remain open and subject to examination by the relevant taxing authorities. In general, the Company's 2015 through 2018 tax years remain open to examination. Additional years may be open to the extent attributes are being carried forward to an open year.

In March 2017, the Internal Revenue Service (IRS) initiated an examination of the Company's Federal Income Tax Returns for the years 2013 through 2016. The IRS concluded its examinations, without adjustment, in the fourth quarter 2018.

As of December 31, 2018 and 2017, our liability for unrecognized tax benefits related primarily to state income taxes did not change and remained at \$2,215,000, and is recognized as a component of other long-term liabilities in the

accompanying consolidated balance sheet. The liability, if recognized, would affect our effective rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2018	2017
Balance at January 1	\$2,215,000	\$2,215,000
Additions based on tax positions related to the current year	—	—
Additions for tax positions of prior years	—	—
Reductions for tax positions of prior years	—	—
Balance at December 31	\$2,215,000	\$2,215,000

The Company's policy is to record interest and penalties related to income tax matters as income tax expense. Accrued interest and penalties as of December 31, 2018 and 2017 were \$263 thousand and \$193 thousand, respectively.

It is reasonably possible that the amount of the unrecognized tax benefits with respect to our unrecognized tax positions will increase or decrease in the next 12 months. These changes may result from, among other things, state tax settlements under voluntary disclosure agreements, or conclusions of ongoing examinations or reviews. However, quantification of an estimated range cannot be made at this time.

Note 7: Long-Term Debt

The Company has a revolving credit facility with Bank of America and five other lenders which provides for a line of credit of up to \$125 million, including a \$35 million letter of credit subfacility, and a \$35 million swingline subfacility. The revolving credit facility contains customary terms and conditions, including restrictions on indebtedness, dividend payments, business combinations and other related items. The revolving credit facility includes a full and unconditional guarantee by the Company's 100 percent owned domestic subsidiaries whose assets equal substantially all of the consolidated assets of the Company and its subsidiaries. Certain of the Company's minor subsidiaries are not guarantors.

On July 26, 2018, the Company entered into Amendment No. 4 to Credit Agreement (the "Amendment"). The Amendment, among other matters, replaces the existing minimum tangible net worth covenant with the following covenants: (i) when RPC's trailing four quarter EBITDA (as calculated under the Credit Agreement) is equal to or greater than \$50 million, a maximum consolidated leverage ratio of 2.50:1.00 and a minimum debt service coverage ratio of 2.00:1.00, and (ii) otherwise, a minimum tangible net worth covenant of no less than \$600 million. The Amendment additionally (1) extends the Credit Agreement maturity date from January 17, 2019 to July 26, 2023, (2) eliminates any borrowing base limitations on revolving loans when RPC's trailing four quarter EBITDA (as calculated under the Credit Agreement) is equal to or greater than \$50 million, (3) reduces the commitment fees payable by RPC by 7.5 basis points at each pricing level and (4) reduces the letter of credit sublimit from \$50 million to \$35 million. As of December 31, 2018, the Company was in compliance with these covenants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RPC, Inc. and Subsidiaries

Years ended December 31, 2018, 2017 and 2016

Revolving loans under the amended revolving credit facility bear interest at one of the following two rates at the Company's election:

The Eurodollar Rate, which is the rate per annum equal to the London Interbank Offering Rate ("LIBOR"); plus, a margin ranging from 1.125% to 2.125%, based on a quarterly consolidated leverage ratio calculation; or

the Base Rate, which is a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate plus 0.50%, (b) Bank of America's publicly announced "prime rate," and (c) the Eurodollar Rate plus 1.00%; in each case plus a margin that ranges from 0.125% to 1.125% based on a quarterly consolidated leverage ratio calculation.

In addition, the Company pays an annual fee ranging from 0.15% to 0.25%, based on a quarterly consolidated leverage ratio calculation, on the unused portion of the credit facility.

The Company has incurred total loan origination fees and other debt related costs associated with this revolving credit facility in the aggregate of approximately \$3.3 million. These costs are being amortized to interest expense over the remaining term of the loan, and the remaining net balance of \$0.3 million at December 31, 2018 is classified as part of non-current other assets.

As of December 31, 2018, RPC had no outstanding borrowings under the revolving credit facility, and letters of credit outstanding relating to self-insurance programs and contract bids totaled \$19.5 million; therefore, a total of \$105.5 million of the facility was available. Interest incurred, which includes facility fees on the unused portion of the revolving credit facility and the amortization of loan cost, and interest paid on the credit facility were as follows for the periods indicated:

	2018	2017	2016
Years Ended December 31,			
<i>(in thousands)</i>			
Interest incurred	\$390	\$415	\$449

Interest paid \$241 \$181 \$284

51

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*RPC, Inc. and Subsidiaries**Years ended December 31, 2018, 2017 and 2016*

Note 8: 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, 2016	\$ (15,503)	\$ 39	\$ (2,638)	\$(18,102)
Change during 2017:				
Before-tax amount	776	(38)	391	1,129
Tax (expense) benefit	(283)	14	—	(269)
Reclassification adjustment, net of taxes:				
Realized loss on securities	—	—	—	—
Amortization of net loss ⁽¹⁾	540	—	—	540
Total activity in 2017	1,033	(24)	391	1,400
Balance at December 31, 2017	\$ (14,470)	\$ 15	\$ (2,247)	\$(16,702)
Change during 2018:				
Before-tax amount	(2,712)	(15)	(621)	(3,348)
Tax (expense) benefit	665	—	—	665
Reclassification adjustment, net of taxes:				
Realized loss on securities	—	—	—	—
Amortization of net loss ⁽¹⁾	639	—	—	639
Total activity in 2018	(1,408)	(15)	(621)	(2,044)
Balance at December 31, 2018	\$ (15,878)	\$ —	\$ (2,868)	\$(18,746)

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

Note 9: 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.

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis on the balance sheet as of December 31, 2018 and 2017:

(in thousands)	Total	Fair Value Measurements at December 31, 2018 with:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Available-for-sale securities – equity securities	\$211	\$ 211	\$ —	\$ —
Investments measured at net asset value - trading securities	\$22,815			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*RPC, Inc. and Subsidiaries**Years ended December 31, 2018, 2017 and 2016*

(in thousands)	Total	Fair Value Measurements at December 31, 2017 with:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Available-for-sale securities – equity securities	\$270	\$ 270	\$ —	\$ —
Investments measured at net asset value - trading securities	\$23,463			

The Company determines the fair value of marketable securities classified as 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. Marketable securities classified as trading are comprised of the SERP assets, as described in Note 11, and are recorded primarily at their net cash surrender values, calculated using their net asset values, which approximates fair value, as provided by the issuing insurance company. Significant observable inputs, in addition to quoted market prices, were used to value the trading securities. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods. For the year ended December 31, 2018 there were no significant transfers in or out of levels 1, 2 or 3.

Under the Company's revolving credit facility, there was no balance outstanding at December 31, 2018 and 2017. Outstanding balances based on the quote from the lender (level 2 inputs) is similar to the fair value as of the same date. The borrowings under our revolving credit facility bear variable interest rates as described in Note 7. 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 maturity of these instruments. The Company currently does not use the fair value option to measure any of its existing financial instruments and has not determined whether or not it will elect this option for financial instruments it may acquire in the future.

Note 10: Commitments and Contingencies

Lease Commitments - Minimum annual rentals, principally for noncancelable real estate and equipment leases with terms in excess of one year, in effect at December 31, 2018, are summarized in the following table:

(in thousands)	
2019	\$11,819
2020	10,651
2021	7,758
2022	5,618
2023	2,929
Thereafter	6,170
Total rental commitments	\$44,945

Total rental expense, including short-term rentals, charged to operations was \$21,576,000 in 2018, \$17,112,000 in 2017, and \$15,723,000 in 2016.

Income Taxes - The amount of income taxes the Company pays is subject to ongoing audits by federal and state tax authorities, which often result in proposed assessments.

Sales and Use Taxes - The Company has ongoing sales and use tax audits in various jurisdictions and may be subjected to varying interpretations of statute that could result in unfavorable outcomes. Any probable and estimable assessment costs are included in accrued state, local and other taxes.

Litigation - RPC is a party to various routine legal proceedings primarily involving commercial claims, workers' compensation claims and claims for personal injury. RPC insures against these risks to the extent deemed prudent by its management, but no assurance can be given that the nature and amount of such insurance will, in every case, fully indemnify RPC against liabilities arising out of pending and future legal proceedings related to its business activities. While the outcome of these lawsuits, legal proceedings and claims cannot be predicted with certainty, management, after consultation with legal counsel, believes that it is not reasonably possible that the outcome of all such proceedings, even if determined adversely, would have a material adverse effect on the Company's business or financial condition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*RPC, Inc. and Subsidiaries**Years ended December 31, 2018, 2017 and 2016*

Note 11: Employee Benefit Plans

Defined Benefit Pension Plan

The Company's Retirement Income Plan, a trustee defined benefit pension plan, provides monthly benefits upon retirement at age 65 to substantially all employees with at least one year of service prior to 2002. During 2001, the plan became a multiple employer plan, with Marine Products Corporation as an adopting employer.

The Company's projected benefit obligation exceeds the fair value of the plan assets under its pension plan by \$5.1 million and thus the plan was under-funded as of December 31, 2018. The following table sets forth the funded status of the Retirement Income Plan and the amounts recognized in RPC's consolidated balance sheets:

December 31, (in thousands)	2018	2017
Accumulated benefit obligation at end of year	\$43,417	\$46,397
CHANGE IN PROJECTED BENEFIT OBLIGATION:		
Benefit obligation at beginning of year	\$46,397	\$44,315
Service cost	—	—
Interest cost	1,832	1,932
Amendments	—	—
Actuarial loss	(2,658)	2,206
Benefits paid	(2,154)	(2,056)
Projected benefit obligation at end of year	\$43,417	\$46,397
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	\$38,050	\$34,745
Actual return on plan assets	(2,532)	5,361
Employer contribution	5,000	—
Benefits paid	(2,154)	(2,056)
Fair value of plan assets at end of year	\$38,364	\$38,050
Funded status at end of year	\$(5,053)	\$(8,347)

December 31, (in thousands)	2018	2017
AMOUNTS (PRE-TAX) RECOGNIZED IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) CONSIST OF:		
Net loss	\$24,650	\$22,762
Prior service cost (credit)	—	—
Net transition obligation (asset)	—	—
	\$24,650	\$22,762

The accumulated benefit obligation for the Retirement Income Plan at December 31, 2018 and 2017 has been disclosed above. The Company uses a December 31 measurement date for this qualified plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*RPC, Inc. and Subsidiaries**Years ended December 31, 2018, 2017 and 2016*

Amounts recognized in the consolidated balance sheets consist of:

December 31, (in thousands)	2018	2017
Funded status of the Retirement Income Plan	\$(5,053)	\$(8,347)
SERP liability	(24,585)	(27,288)
Long-term pension liabilities	\$(29,638)	\$(35,635)

RPC's funding policy is to contribute to the defined benefit pension plan the amount required, if any, under the Employee Retirement Income Security Act of 1974. Amounts contributed to the plan totaled \$5.0 million in 2018 and no contributions were made in 2017.

The components of net periodic benefit cost of the Retirement Income Plan are summarized as follows:

Years ended December 31, (in thousands)	2018	2017	2016
Service cost for benefits earned during the period	\$—	\$—	\$—
Interest cost on projected benefit obligation	1,832	1,932	2,006
Expected return on plan assets	(2,837)	(2,356)	(2,131)
Amortization of net loss	824	851	799
Net periodic benefit plan cost	\$(181)	\$427	\$674

The Company recognized pre-tax (increases) decreases to the funded status in accumulated other comprehensive loss of \$1,888,000 in 2018, \$(1,650,000) in 2017, and \$1,240,000 in 2016. There were no previously unrecognized prior service costs as of December 31, 2018, 2017 and 2016. The pre-tax amounts recognized in accumulated other comprehensive loss for the years ended December 31, 2018, 2017 and 2016 are summarized as follows:

(in thousands)	2018	2017	2016
Net (gain) loss	\$2,712	\$(799)	\$2,039

Amortization of net loss (824) (851)