RPC INC
Form 10-Q
November 02, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

Commission File No. 1-8726

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

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

2170 Piedmont Road, NE, Atlanta, Georgia 30324
(Address of principal executive offices) (zip code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

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

As of October 24, 2006, RPC, Inc. had 64,754,044 shares of common stock outstanding.

RPC, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2006 AND DECEMBER 31, 2005
(In thousands)
(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	**$ 7,015**	$ 12,809
Accounts receivable, net	**138,613**	107,428
Inventories	**18,556**	13,298
Deferred income taxes	**4,575**	5,304
Prepaid expenses and other current assets	**1,900**	4,004
Total current assets	**170,659**	142,843
Property, plant and equipment, net	**224,699**	141,218
Goodwill	**24,093**	24,093
Other assets	**4,734**	3,631
Total assets	**$ 424,185**	$ 311,785
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	**$ 56,739**	$ 30,437
Accrued payroll and related expenses	**12,852**	11,903
Accrued insurance expenses	**3,384**	3,695
Accrued state, local and other taxes	**3,170**	2,585
Income taxes payable	**4,142**	791
Other accrued expenses	**846**	544
Total current liabilities	**81,133**	49,955
Accrued insurance expenses	**6,557**	6,168
Notes payable to banks	**6,650**	—
Long-term pension liabilities	**12,315**	13,614
Deferred income taxes	**7,922**	8,758
Other long-term liabilities	**3,351**	789
Total liabilities	**117,928**	79,284
Common stock	**6,474**	6,445
Capital in excess of par value	**16,068**	19,235
Retained earnings	**291,589**	219,907
Deferred compensation	**—**	(5,391)
Accumulated other comprehensive loss	**(7,874)**	(7,695)
Total stockholders' equity	**306,257**	232,501
Total liabilities and stockholders' equity	**$ 424,185**	$ 311,785

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

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RPC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In thousands except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	**2006**	2005
Revenues	**$ 154,209**	$ 115,801	**$ 436,298**	$ 310,076
Cost of services rendered and goods sold	**74,011**	61,424	**209,457**	167,581
Selling, general and administrative expenses	**23,480**	19,000	**66,955**	55,594
Depreciation and amortization	**11,572**	9,863	**33,874**	28,750
Gain on disposition of assets, net	**(1,479)**	(10,801)	**(4,480)**	(12,212)
Operating profit	**46,625**	36,315	**130,492**	70,363
Interest income, net	**13**	131	**260**	301
Other income, net	**320**	319	**700**	1,782
Income before income taxes	**46,958**	36,765	**131,452**	72,446
Income tax provision	**18,188**	13,658	**50,168**	27,502
Net income	**$ 28,770**	$ 23,107	**$ 81,284**	$ 44,944
Earnings per share				
Basic	**$ 0.45**	$ 0.37	**$ 1.28**	$ 0.71
Diluted	**$ 0.44**	$ 0.35	**$ 1.24**	$ 0.69
Dividends per share	**$ 0.050**	$ 0.027	**$ 0.150**	$ 0.080
Average shares outstanding				
Basic	**63,761**	63,043	**63,695**	63,437
Diluted	**65,533**	65,331	**65,715**	65,589
PRO FORMA BASIS (AS ADJUSTED FOR 3-FOR-2 STOCK SPLIT TO BE EFFECTIVE DECEMBER 11, 2006)				
Earnings per share				
Basic	**$ 0.30**	$ 0.24	**$ 0.85**	$ 0.47
Diluted	**$ 0.29**	$ 0.24	**$ 0.82**	$ 0.46
Dividends per share	**$ 0.033**	$ 0.018	**$ 0.100**	$ 0.053
Average shares outstanding				
Basic	**95,641**	94,565	**95,543**	95,156

Diluted	**98,300**	97,996	**98,573**	98,384

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

RPC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 and 2005
(In thousands)
(Unaudited)

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
OPERATING ACTIVITIES		
Net income	**$ 81,284**	$ 44,944
Noncash charges (credits) to earnings:		
Depreciation and amortization	**33,874**	28,750
Stock-based compensation	**1,816**	956
Gain on disposition of assets, net	**(4,480)**	(12,212)
Deferred income tax provision (benefit)	**2**	(2,856)
Changes in current assets and liabilities:		
Accounts receivable	**(31,185)**	(23,040)
Inventories	**(5,254)**	(1,542)
Prepaid expenses and other current assets	**1,861**	2,122
Accounts payable	**26,302**	10,774
Income taxes payable	**3,351**	7,221
Accrued payroll and related expenses	**949**	(136)
Accrued insurance expenses	**(311)**	143
Accrued state, local and other expenses	**585**	482
Other accrued expenses	**302**	(315)
Changes in working capital	**(3,400)**	(4,291)
Changes in other assets and liabilities:		
Long-term pension liabilities	**(1,299)**	136
Long-term accrued insurance expenses	**389**	323
Other non-current assets	**(688)**	(480)
Other non-current liabilities	**2,562**	26
Net cash provided by operating activities	**110,060**	**55,296**
INVESTING ACTIVITIES		
Capital expenditures	**(118,831)**	(55,439)
Purchase of businesses	**—**	(6,965)
Proceeds from sale of property and equipment	**5,962**	18,414
Net cash used for investing activities	**(112,869)**	(43,990)
FINANCING ACTIVITIES		
Payment of dividends	**(9,602)**	(5,082)
Borrowings from notes payable to banks	**15,100**	—
Repayments on notes payable to banks	**(8,450)**	—
Debt issue costs for notes payable to banks	**(469)**	—
Payments on other outstanding debt	**—**	(4,800)
Excess tax benefits for share-based payments	**1,325**	—
Cash paid for common stock purchased and retired	**(2,019)**	(10,268)
Proceeds received upon exercise of stock options	**1,130**	768

Net cash used for financing activities		**(2,985)**		(19,382)
Net decrease in cash and cash equivalents		**(5,794)**		**(8,076)**
Cash and cash equivalents at beginning of period		**12,809**		29,636
Cash and cash equivalents at end of period	**$**	**7,015**	$	21,560

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

RPC, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

The accompanying unaudited consolidated financial statements include the accounts of RPC, Inc. and its wholly-owned subsidiaries ("RPC" or the "Company") and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (all of which consisted of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

On October 24, 2006 at its quarterly meeting, the Board of Directors authorized a three-for-two stock split by issuance on December 11, 2006 of one additional common share for every two common shares held of record as of November 10, 2006. Accordingly, the par value of additional shares issued will be adjusted between common stock and capital in excess of par value, and fractional shares resulting from the stock split will be settled in cash. The share and per share data on the historical (actual) basis presented in the interim financial statements have not been adjusted for the stock split. The consolidated statements of operations present, on a pro forma basis, share and per share information reflecting the stock split.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2005.

Certain prior year balances have been reclassified to conform to the current year's presentation.

2. REVENUE RECOGNITION

RPC's revenues are generated from product sales, equipment rentals and services. Revenues from product sales, equipment rentals and services are based on fixed or determinable priced purchase orders or contracts with the customer and do not include the right of return. The Company recognizes revenue from product sales when title passes to the customer, the customer assumes risks and rewards of ownership, and collectibility is reasonably assured. Equipment rental and service revenues are recognized when the services are rendered and collectibility is reasonably assured. Rates for rentals and services are priced on a per day, per unit of measure, per man hour or similar basis.

RPC, INC. AND SUBSIDIARIES
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(Unaudited)

3. EARNINGS PER SHARE

Statement of Financial Accounting Standard ("SFAS") No. 128, "Earnings Per Share," requires a basic earnings per share and diluted earnings per share presentation. The two calculations differ as a result of the dilutive effect of stock options and time lapse restricted shares and performance restricted shares included in diluted earnings per share, but excluded from basic 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. A reconciliation of weighted average shares outstanding is as follows:

	Three months ended September 30		Nine months ended September 30	
(In thousands except per share data amounts)	2006	2005	2006	2005
Net income available for stockholders (numerator for basic and diluted earnings per share):	$ 28,770	$ 23,107	$ 81,284	$ 44,944
Shares (denominator):				
Weighted-average shares outstanding (denominator for basic earnings per share)	63,761	63,043	63,695	63,437
Effect of dilutive securities:				
Employee stock options and restricted stock	1,772	2,288	2,020	2,152
Adjusted weighted average shares (denominator for diluted earnings per share)	65,533	65,331	65,715	65,589
Earnings per share:				
Basic	$ 0.45	$ 0.37	$ 1.28	$ 0.71
Diluted	$ 0.44	$ 0.35	$ 1.24	$ 0.69

4. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140," to permit fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation in accordance with the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company will adopt SFAS No. 155 in fiscal year 2007. The adoption of this Statement is not expected to have a material effect on the Company's Consolidated Financial Statements.

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In March 2006, the FASB issued SFAS No. 156, “Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140,” that provides guidance on accounting for separately recognized servicing assets and servicing liabilities. In accordance with the provisions of SFAS No. 156, separately recognized servicing assets and servicing liabilities must be initially measured at fair value, if practicable. Subsequent to initial recognition, the Company may use either the amortization method or the fair value measurement method to account for servicing assets and servicing liabilities within the scope of this Statement. The Company will adopt SFAS No. 156 in fiscal year 2007. The adoption of this Statement is not expected to have a material effect on the Company’s Consolidated Financial Statements.

In June 2006, the FASB issued Financial Interpretation No. (FIN) 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109.” FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of applying the various provisions of FIN 48.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” that provides guidance for using fair value to measure assets and liabilities. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop the assumptions that market participants would use when pricing the asset or liability. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. In addition, SFAS 157 requires that fair value measurements be separately disclosed by level within the fair value hierarchy. This standard will be effective for financial statements issued for fiscal periods beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact of applying the various provisions of SFAS 157.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132(R).” This Statement improves financial reporting by requiring an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer’s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company is currently evaluating the impact of applying the various provisions of SFAS 158.

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In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The Company is currently assessing the impact of adopting SAB 108.

5. COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	**2006**	2005	**2006**	2005
Net income as reported	$ **28,770**	$ 23,107	$ **81,284**	$ 44,944
Change in unrealized gain (loss) on securities, net of taxes	**(20)**	129	**(179)**	261
Comprehensive income	$ **28,750**	$ 23,236	$ **81,105**	$ 45,205

5. STOCK-BASED COMPENSATION

The Company has issued stock options and restricted stock to employees under two stock incentive plans that were approved by shareholders in 1994 and 2004. The 1994 plan expired in 2004. The Company reserved 3,375,000 shares of common stock under the 2004 Plan which expires ten years from the date of approval. This plan provides for the issuance of various forms of stock incentives, including, among others, incentive and non-qualified stock options and restricted stock which are discussed in detail below. As of September 30, 2006, there were 2,564,375 shares available for grants.

On January 1, 2006, the Company adopted the provisions of SFAS 123R, which revises SFAS 123, "Accounting for Stock-Based Compensation," ("SFAS 123") and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Statement 123R also requires that cash flows related to share-based payment awards to employees that result in tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) be classified as financing cash flows.

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(Unaudited)

Prior to January 1, 2006, the Company provided the disclosures required by SFAS 123, as amended by SFAS 148, “Accounting for Stock-Based Compensation - Transition and Disclosures”, and accounted for all of its stock-based compensation under the provisions of Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees” using the intrinsic value method prescribed therein. Accordingly, the Company did not recognize compensation expense for the options granted since the exercise price was the same as the market price of the shares on the date of grant. Compensation cost on the restricted stock was recorded as deferred compensation in stockholders’ equity based on the fair market value of the shares on the date of issuance and amortized ratably over the respective vesting period. Forfeitures related to restricted stock were previously accounted for as they occurred.

As permitted by SFAS 123R, the Company has elected to use the modified prospective transition method and therefore financial results for prior periods have not been restated. Under this transition method, the Company will recognize compensation expense for the unvested portion of stock options outstanding over the remainder of the service period. The compensation cost recorded for these stock options is based on their fair value at grant date less the cost of estimated forfeitures.

Pre-tax stock-based employee compensation expense was $380,000 ($282,000 after tax) for the three months ended September 30, 2006 and $1,816,000 ($1,324,000 after tax) for the nine months ended September 30, 2006. As a result of the adoption of SFAS 123R, financial results were lower than under the previous accounting method for share-based compensation by the following amounts:

(In thousands)	**Three months ended September 30, 2006**	**Nine months ended September 30, 2006**
Earnings before income taxes	**$ 95**	**$ 559**
Net earnings	**$ 92**	**$ 544**
Basic net earnings per common share	**$ 0.001**	**$ 0.009**
Diluted net earnings per common share	**$ 0.001**	**$ 0.008**

There was no impact to basic and diluted earnings per share for the three months and nine months ended September 30, 2006, with the exception of diluted earnings per share which decreased from $1.25 to $1.24 for the nine months ended September 30, 2006.

The following table illustrates the effect on net income and net income per common share as if we had applied the fair value recognition provisions of SFAS 123 to stock-based compensation for the three months and nine months ended September 30, 2005:

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(In thousands except per share data amounts)	**Three months ended September 30, 2005**	**Nine months ended September 30, 2005**
Net income – as reported	$ 23,107	$ 44,944
Add: Stock-based employee compensation cost, previously included in reported net income, net of related tax effect	187	593
Deduct: Stock-based employee compensation cost, computed using the Black-Scholes option pricing model, for all awards, net of related tax effect	(356)	(1,101)
Pro forma net income	$ 22,938	$ 44,436
Earnings per share, as reported		
Basic	$ 0.37	$ 0.71
Diluted	$ 0.35	$ 0.69
Pro forma earnings per share		
Basic	$ 0.36	$ 0.70
Diluted	$ 0.35	$ 0.68

Stock Options

Stock options are granted at an exercise price equal to the fair market value of the Company's common stock at the date of grant except for grants of incentive stock options to owners of greater than 10 percent of the Company's voting securities which must be made at 110 percent of the fair market value of the Company's common stock. Options generally vest ratably over a period of five years and expire in 10 years, except incentive stock options granted to owners of greater than 10 percent of the Company's voting securities, which expire in five years.

The Company has not granted stock options to employees since 2003. The fair value of existing options was estimated as of the date of grant using the Black-Scholes option pricing model as prescribed by SFAS No. 123.

RPC, INC. AND SUBSIDIARIES
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(Unaudited)

Transactions involving RPC's stock options for the nine months ended September 30, 2006 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2006	2,329,110	$ 4.64	5.4 years	
Granted	—	—	N/A	
Exercised	(482,494)	4.50	N/A	
Forfeited	(99,647)	4.68	N/A	
Expired	—	—	N/A	
Outstanding at September 30, 2006	1,746,969	$ 4.68	4.67 years	$ 8,176,000
Exercisable at September 30, 2006	1,280,092	$ 4.79	4.17 years	$ 6,132,000

The total intrinsic value of stock options exercised were $5,482,000 during the nine months ended September 30, 2006 and $2,868,000 during the nine months ended September 30, 2005. There were no recognized excess tax benefits associated with the exercise of stock options during the nine months ended September 30, 2006 and 2005, since all of the stock options exercised were incentive stock options which do not generate tax deductions for the Company.

Restricted Stock

The Company has granted employees two forms of restricted stock: time lapse restricted and performance restricted. Time lapse restricted shares vest after a stipulated number of years from the grant date, depending on the terms of the issue. Time lapse restricted shares issued in years 2003 and prior vest after ten years. Time lapse restricted shares issued subsequent to fiscal year 2003 vest in 20 percent increments annually starting with the second anniversary of the grant, over six years from the date of grant. Grantees receive dividends declared and retain voting rights for the granted shares. The performance restricted shares are granted, but not earned and issued until certain five-year tiered performance criteria are met. The performance criteria are predetermined market prices of RPC's common stock. On the date the common stock appreciates to each level (determination date), 20 percent of performance shares are earned. Once earned, the performance shares vest five years from the determination date. After the determination date, the grantee will receive dividends declared and voting rights to the shares.

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(Unaudited)

The following is a summary of the changes in non-vested restricted shares for the nine months ended September 30, 2006:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at January 1, 2006	1,235,991	$ 6.72
Granted	166,900	33.48
Vested	(188,166)	4.88
Forfeited	(250,650)	6.94
Non-vested shares at September 30, 2006	964,075	$ 11.66

The total fair value of shares vested during the nine months ended September 30, 2006 was $5,588,000 and during the nine months ended September 30, 2005 was $3,151,000. The tax benefit for compensation tax deductions in excess of compensation expense was credited to capital in excess of par value aggregating $1,325,000 during the nine months ended September 30, 2006 and $118,000 during the nine months ended September 30, 2005. The excess tax deductions during the nine months ended September 30, 2006 are classified as financing cash flows in accordance with SFAS123R.

Other Information

As of September 30, 2006, total unrecognized compensation cost related to non-vested restricted shares was $9,722,000 which is expected to be recognized over a weighted-average period of 3.67 years. Unearned compensation cost associated with non-vested restricted shares previously reflected as deferred compensation in stockholders' equity was reclassified to capital in excess of par value as required by SFAS 123R. As of September 30, 2006, total unrecognized compensation cost related to non-vested stock options was $596,000 which is expected to be recognized over a weighted-average period of 1.2 years.

The Company received cash from options exercised of $1,130,000 during the nine months ended September 30, 2006 and of $768,000 during the nine months ended September 30, 2005. These cash receipts are classified as financing cash flows in the accompanying consolidated statements of cash flows. The fair value of shares tendered to exercise employee stock options totaled approximately $1,040,000 during the nine months ended September 30, 2006 and $835,000 during the nine months ended September 30, 2005 and have been excluded from the consolidated statements of cash flows.

6. BUSINESS SEGMENT INFORMATION

RPC's service lines have been aggregated into two reportable oil and gas services segments, Technical Services and Support Services, because of the similarities between the financial performance and approach to managing the service lines within each of the segments, as well as the economic and business conditions impacting their business activity levels. The other business segment includes information concerning RPC's business units that do not qualify for separate segment reporting. These business units included an interactive training software developer, prior to its disposition in May 2005. Corporate includes selected administrative costs incurred by the Company that are not allocated to business units. Gains or losses on disposition of assets are reviewed by the Company’s chief decision maker on a consolidated basis, and accordingly the Company does not report gains or losses at the segment level.

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(Unaudited)

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

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

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

RPC, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

(in thousands)	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenues:				
Technical Services	**$ 127,929**	$ 99,046	**$ 362,262**	**$** 262,963
Support Services	**26,280**	16,755	**74,036**	47,096
Other	**—**	—	**—**	17
Total revenues	**$ 154,209**	$ 115,801	**$ 436,298**	$ 310,076
Operating profit (loss):				
Technical Services	**$ 40,131**	$ 24,911	**$ 113,414**	$ 57,029
Support Services	**8,216**	3,255	**21,768**	8,737
Other	**—**	(2)	**—**	(300)
Corporate	**(3,201)**	(2,650)	**(9,170)**	(7,315)
Gain on disposition of assets, net	**1,479**	10,801	**4,480**	12,212
Total operating profit	**46,625**	36,315	**130,492**	70,363
Interest income, net	**13**	131	**260**	301
Other income, net	**320**	319	**700**	1,782
Income before income taxes	**$ 46,958**	$ 36,765	**$ 131,452**	$ 72,446

Nine months ended September 30, 2006	**Technical Services**	**Support Services**	**Other**