RGC RESOURCES INC
Form 4
September 05, 2013

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
LOGAN GEORGE W

(Last) (First) (Middle)

P O BOX 1190

(Street)

SALEM, VA 24153

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
RGC RESOURCES INC [RGCO]

3. Date of Earliest Transaction (Month/Day/Year)
09/03/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/03/2013		A (1)		71.263	A	$ 18.71	53,506.314	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LOGAN GEORGE W P O BOX 1190 SALEM, VA 24153	X			

Signatures

George W. Logan by Howard T. Lyon, POA dated 10/01/02	09/05/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares purchased pursuant to the Restricted Stock Plan for Outside Directors of RGC Resources, Inc.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. style="font-family:inherit;font-size:10pt;color:#000000;text-decoration:none;">$7.8 million to $17.2 million, representing a 31% gross margin, for the Current Period compared to $25.0 million, representing a 42% gross margin, for the Comparable Period. This decrease in revenues and gross profits in the Current Period was principally due to the continued slowdown of new vessel construction as compared to the Comparable Period, leading to decreased sales of new towed streamer systems, partially offset by increasing levels of repair work from the existing installed base of product with our customers and increased sales of ocean-bottom cable equipment in the Current Period. The decrease in gross margin is primarily the result of the change in the sales mix of products sold during the half of 2013.

Software — Net revenues for the Current Period decreased by $2.1 million, or 11%, to $17.2 million, compared to $19.3 million for the Comparable Period. Gross profit for the Current Period decreased $1.9 million, or 13%, to $12.3 million, compared to $14.2 million in the Comparable Period. This decrease in revenues was due in part to decreased revenues from our Gator seabed software and declines in our Orca towed streamer software revenues. The reduction in revenues for seabed software was due to a reduction in seabed contractors, with our previous customer, RXT, filing for bankruptcy. The declines in towed streamer software revenues were due to consolidation in the towed streamer contractor sector. However, gross margin of 72% in the Current Period remained essentially constant with the 73%

gross margin in the Comparable Period.

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Operating Expenses

Research, Development and Engineering — Research, development and engineering expense was $18.4 million, or 7% of net revenues, for the Current Period, an increase of $0.4 million compared to $18.0 million, or 8% of net revenues, for the Comparable Period. During the Current Period, we continued to invest in our next generation of seismic acquisition products and services, which includes Calypso, our next generation re-deployable seabed seismic data acquisition system.

Marketing and Sales — Marketing and sales expense was $16.9 million, or 7% of net revenues, for the Current Period, an increase of $0.8 million compared to $16.1 million, or 7% of net revenues, for the Comparable Period.

General, Administrative and Other Operating Expenses — General, administrative and other operating expenses were $27.6 million, or 11% of net revenues, for the Current Period, which amount was comparable to $28.4 million, or 13% of net revenues, for the Comparable Period. The Current Period includes bad debt expense of $2.9 million, primarily related to the bankruptcy of one of our underwriting clients in our Solutions segment, partially offset by lower legal fees.

Other Items

Interest Expense, net — Interest expense, net, was $3.8 million for the Current Period compared to $2.9 million for the Comparable Period. This increase is directly related to the issuance of Notes, which incur a higher interest rate and have a higher outstanding balance than the outstanding balance on our revolving line of credit in the Comparable Period (see "— Liquidity and Capital Resources — Capital Requirements and Sources of Capital" below).

Equity in Earnings (Losses) of Investments — We account for our equity investments in both INOVA Geophysical and GeoRXT as equity method investments.

We record our share of earnings and losses of our 49% interest in INOVA Geophysical on a one fiscal quarter lag basis. Thus, our share of INOVA Geophysical's losses for the six month period from October 1, 2012 through March 31, 2013 was included in our financial results for the Current Period. For the Current Period, we recorded approximately $(2.9) million of equity in losses of INOVA Geophysical compared to $6.2 million of equity in earnings for the Comparable Period. The following table reflects the summarized financial information for INOVA Geophysical for the six-month periods from October 1 to March 31 of 2013 and 2012 (in thousands):

	Six-Month Period from October 1 through March 31	
	2013	2012
Net revenues	$81,706	$115,777
Gross profit	$14,135	$33,466
Income (loss) from operations	$(8,761)	$15,419
Net income (loss)	$(6,030)	$14,371

In late February 2013, we purchased a 30% interest GeoRXT. We record our share of earnings related to our equity interest in GeoRXT on a current quarter basis, unlike our recording of earnings in INOVA Geophysical, which are recorded on a one fiscal quarter-lag basis. Our share of GeoRXT's losses during the Current Period was approximately $(2.3) million. This represents $(1.5) million of losses recorded against our equity investment in GeoRXT, which brought the balance in this investment to zero, and $(0.8) million was recorded against the outstanding balance of our note receivable owed by GeoRXT (see Note 3 "Equity Method Investments").

The following table reflects the summarized financial information for GeoRXT for the period from March 1 to June 30, 2013 (in thousands):

	Period from March 1 to June 30, 2013
Net revenues	$19,668
Gross profit	$122
Loss from operations	$(6,876)
Net loss	$(7,045)

Other Income (Expense) — Other income (expense) for the Current Period was $(107.1) million compared to other income of $0.9 million for the Comparable Period. This difference was primarily related to the loss contingency accrual recorded with respect to certain of our legal proceedings.

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Explanation of Responses:

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The following table reflects the significant items of other income (expense) as follows (in thousands):

	Six Months Ended June 30,	
	2013	2012
Accrual for loss contingency related to legal proceedings (Note 8)	$(110,000)	$—
Gain on sale of investment	3,591	—
Other income (expense)	318	209
Total other income (expense)	$(106,091)	$209

Income Tax Expense (Benefit) — Income tax expense (benefit) for the Current Period was $(37.5) million compared to $7.6 million for the Comparable Period. Our effective tax rates for the Current Period and Comparable Period were 35.2% and 27.1%, respectively. The change in our effective tax rate for the Current Period as compared to the Comparable Period was primarily due to the tax impact of the loss contingency accrual for our legal proceedings recognized during the Current Period.

Preferred Stock Dividends — The preferred stock dividend relates to our Series D Preferred Stock. Quarterly dividends must be paid in cash. Dividends are paid at a rate equal to the greater of (i) 5.0% per annum or (ii) the three month LIBOR rate on the last day of the immediately preceding calendar quarter plus 2.5% per annum. The Series D Preferred Stock dividend rate was 5.0% at June 30, 2013.

Liquidity and Capital Resources

Sources of Capital

Our cash requirements include our working capital requirements, and cash required for our debt service payments, seismic data acquisition projects and capital expenditures. As of June 30, 2013, we had working capital of $236.1 million, which included $109.5 million of cash on hand. Capital requirements are primarily driven by our continued investment in our multi–client seismic data library (totaling $48.6 million for the Current Period) and, to a lesser extent, our inventory purchase obligations. Also, our headcount is a significant driver of our working capital needs. Because a significant portion of our business is involved in the planning, processing and interpretation of seismic data services, one of our largest investments is in our employees, which involves cash expenditures for their salaries, bonuses, payroll taxes and related compensation expenses.

In addition, we are currently performing a due diligence review of GeoRXT to determine whether to increase our ownership percentage in GeoRXT to 50%. We were granted an option, exercisable at any time on or prior to May 15, 2013, to increase our ownership percentage, which would have required a $40 million capital contribution into GeoRXT; approximately $8 million of this amount would be effectively paid through the conversion of the working capital loan we provided to GeoRXT in January 2013. For further discussion on our investment in GeoRXT, see "– Executive Summary – Investment in GeoRXT."

Our working capital requirements may change from time to time depending upon many factors, including our operating results and adjustments in our operating plan required in response to industry conditions, competition, acquisition opportunities and unexpected events, such as an adverse outcome in our WesternGeco litigation, which is further discussed at Part II, Item 1A. – "Risk Factors — An unfavorable judgment in our pending litigation matter with WesternGeco could have a material adverse effect on our financial results and liquidity" and Part II, Item 1. "Legal Proceedings." In recent years, our primary sources of funds have been cash flows generated from our operations, our existing cash balances, debt and equity issuances and borrowings under our revolving credit facilities.

Senior Secured Second-Priority Notes — On May 13, 2013, we sold $175 million aggregate principal amount of 8.125% Senior Secured Second-Priority Notes due 2018 in a private offering. The Notes are senior secured second-priority obligations, are guaranteed by our material U.S. subsidiaries ("the Notes Guarantors"), and mature on May 15, 2018. Interest on the Notes will accrue at the rate of 8.125% per annum and will be payable semiannually in arrears on May 15 and November 15 of each year during their term, commencing on November 15, 2013.

We used the net proceeds from the offering to repay outstanding indebtedness under our senior secured credit facility, see "- Revolving Line of Credit" below with CMB, and for general corporate purposes. The Notes have not been registered under the Securities Act, or applicable state securities laws and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable state laws.

On or after May 15, 2015, we may on one or more occasions redeem all or a part of the Notes at the redemption prices set forth below, plus accrued and unpaid interest and special interest, if any, on the Notes redeemed during the twelve-month period beginning on May 15th of the years indicated below:

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Date	Percentage	
2015	104.063	%
2016	102.031	%
2017 and thereafter	100.000	%

For additional information regarding the terms of the Notes and related Indenture, Registration Rights Agreement and Intercreditor Agreement see our Current Report on Form 8-K filed with the SEC on May 13, 2013.

Revolving Line of Credit — On May 29, 2012, we amended the terms of our senior secured credit facility with CMB (the "Credit Facility"). The First Amendment to Credit Agreement and Loan Documents (the "First Amendment") modified certain provisions of our senior credit agreement with CMB that we had entered into on March 25, 2010. As amended by the First Amendment, our Credit Facility provides that we may make revolving credit borrowings in U.S. Dollars, Euros, British Pounds Sterling or Canadian Dollars up to an amount not to exceed the U.S. Dollar equivalent of $175.0 million. With repayment of outstanding amounts in May 2013, we have the full amount of the Credit Facility available to us. For further information regarding our Credit Facility, see Note 5 "Long-term Debt" at Notes to Unaudited Condensed Consolidated Financial Statements.

Meeting our Liquidity Requirements

The cash flow information described below reflects the restatement of our condensed consolidated statement of cash flows for the six months ended June 30, 2013.

For the Current Period, total capital expenditures, including investments in our multi-client data library, were $57.6 million, which we anticipate will be significantly higher in the second half of 2013 due to our planned multi-client programs being more heavily weighted to the fourth quarter than in recent years. We are projecting additional capital expenditures for the remaining six months of 2013 to be between $95 million and $115 million. Of the total projected capital expenditures for the remaining six months of 2013, we are estimating that approximately $85 million to $105 million will be spent on investments in our multi-client data library.

We currently believe that our existing cash, cash generated from operations and our sources of working capital will be sufficient for us to meet our anticipated cash needs for at least the next 12 months. However, as described at Part II, Item 1A. – "Risk Factors — An unfavorable judgment in our pending litigation matter with WesternGeco could have a material adverse effect on our financial results and liquidity" and Part II, Item 1. – "Legal Proceedings," there are possible scenarios involving a future judgment to be rendered in the WesternGeco lawsuit that could adversely affect our liquidity. In order to appeal such a judgment, we may be required to collateralize an appeal bond for the full amount of damages entered in the judgment. To be prepared for a possible adverse judgment in this case, we have arranged with sureties to post an appeal bond on our behalf if necessary. Although the terms of the appeal bond enable each surety to require us to post collateral with the surety at any time the bond is outstanding, for up to the full amount of the bond, each surety has represented to us that such a requirement would only occur in rare circumstances where the surety deems a larger amount of security is necessary. In the unlikely event that we are required to post collateral with a surety during the appeal process, depending on the size of the bond and the level of required collateral, in order to collateralize the bond we might need to utilize a combination of cash on hand, undrawn balances available under our revolving line of credit and possibly incur additional debt and/or equity financing. In addition, we may be required to reduce the amounts we spend on capital expenditures, which could adversely affect our results of operations in future periods.

Cash Flow from Operations

Net cash provided by operating activities was $43.4 million for the Current Period, compared to $85.7 million for the Comparable Period. This decrease in our net cash flows from operating activities was primarily due in part to the decrease in our income from operations for the Current Period compared to the Comparable Period. Our net cash flows provided by operating activities during the Current Period were impacted positively by a significant decrease in accounts receivable, offset by the negative impact from an increase in unbilled receivables and inventory and a decrease in accounts payable, accrued expenses, accrued royalties and deferred revenue.

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Cash Flow from Investing Activities

Net cash used in investing activities was $64.8 million for the Current Period, compared to $39.9 million for the Comparable Period. The principal use of cash in our investing activities during the Current Period was $48.6 million for continued investment in our multi-client data library, $9.0 million for capital expenditures related to property, plant and equipment, and a total $9.5 million investment in GeoRXT. These uses of cash were partially offset by the receipt of $4.2 million from the sale of our investment in a cost method investment. The principal uses of cash in our investing activities during the Comparable Period were $52.6 million for investment in our multi-client data library, and $4.9 million of capital expenditures related to property, plant and equipment, offset by proceeds from the maturity of $20.0 million of short-term investments.

Cash Flow from Financing Activities

Net cash flow provided by financing activities was $70.8 million for the Current Period, compared to a use of cash of $4.9 million for the Comparable Period. The net cash flow provided by financing activities during the Current Period was primarily related to $175.0 million in gross proceeds realized from the issuance of the Notes, $97.3 million of which was applied to pay down the outstanding indebtedness under our revolving line of credit. Other uses of cash in our financing activities during the Current Period were payments of long-term debt of $1.8 million compared to $2.1 million in the Comparable Period.

Inflation and Seasonality

Inflation in recent years has not had a material effect on our costs of goods or labor, or the prices for our products or services. Traditionally, our business has been seasonal, with strongest demand in the fourth quarter of our fiscal year.

Critical Accounting Policies and Estimates

Refer to our Annual Report on Form 10-K for the year ended December 31, 2012 for a complete discussion of our significant accounting policies and estimates. There have been no material changes in the Current Quarter regarding our critical accounting policies and estimates.

Foreign Sales Risks

The majority of our foreign sales are denominated in United States dollars. Product revenues are allocated to geographical locations on the basis of the ultimate destination of the equipment, if known. If the ultimate destination of such equipment is not known, product revenues are allocated to the geographical location of initial shipment. Service revenues, which primarily relate to our GeoVentures division, are allocated based upon the billing location of the customer. For the Current Period and Comparable Period, international sales comprised 74% and 67%, respectively, of total net revenues. The percentage of total sales from foreign countries increased primarily due to a decrease in sales into the U.S., as well as increased sales to customers in Europe, Latin America and the Middle East.

A summary of net revenues by geographic area follows (in thousands):	Six Months Ended June 30,	
	2013	2012
Europe	$118,020	$82,566
North America	64,804	72,204
Latin America	23,944	20,571
Middle East	24,631	18,539
Asia Pacific	10,366	15,209
Africa	6,491	5,403
Commonwealth of Independent States (CIS)	2,396	2,432
Total	$250,652	$216,924

Item 4. Controls and Procedures

Disclosure Controls and Procedures. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file with or submit to the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time period specified by the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the restatement discussed above in the explanatory note to this Form 10-Q/A and in Note 1 “Basis of Presentation and Restatement” of Notes to Unaudited Condensed Consolidated Financial Statements, and as a result of the material weakness described below, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that as of June 30, 2013 our disclosure controls and procedures were not effective in providing reasonable assurance that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our company’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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We identified a material weakness in our internal control over financial reporting with respect to the controls related to the preparation and review of our statement of cash flows. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

As a result of this material weakness, our management also concluded that as of June 30, 2013, we did not maintain effective internal control over financial reporting.

To address this material weakness, we are undertaking improvements to our procedures and controls that will include the use of automated systems reporting of non-cash accruals related to our investment in multi-client data library and fixed assets and an improved cross-functional management review of our statement of cash flows. While we believe that the steps we are undertaking will sufficiently address this material weakness in internal control over financial reporting, there can be no assurance that the measures that we are undertaking will be adequate.

Changes in Internal Control over Financial Reporting. There was not any change in our internal control over financial reporting that occurred during the three months ended June 30, 2013, which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 6. Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350.
101	The following materials are formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at June 30, 2013 and December 31, 2012, (ii) Condensed Consolidated Statements of Operations for the three- and six-months ended June 30, 2013 and 2012, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three- and six-months ended June 30, 2013 and 2012, (iv) Condensed Consolidated Statements of Cash Flows for the six-months ended June 30, 2013 (Restated) and 2012, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.*
*	In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

ION GEOPHYSICAL CORPORATION

By /s/ Gregory J. Heinlein
Gregory J. Heinlein
Senior Vice President and Chief Financial Officer

Date: November 15, 2013

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EXHIBIT INDEX

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