HURCO COMPANIES INC
Form 10-K
January 12, 2011

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

FORM 10-K

(Mark One)

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended October 31, 2010 or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _________ to _________.

Commission File No. 0-9143

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

Indiana	35-1150732
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
One Technology Way Indianapolis, Indiana	46268
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code (317) 293-5309

Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common Stock, No Par Value (Title of Class)

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

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

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, and (2) has been subject to the filing requirements for at least the past 90 days. Yes x 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 or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller Reporting Company ¨
(Do not check if a smaller reporting company)

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates as of April 30, 2010 (the last day of our most recently completed second quarter) was $125,339,000.

The number of shares of the registrant's common stock outstanding as of January 7, 2011 was 6,440,851.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant's Proxy Statement for its 2011 Annual Meeting of Shareholders (Part III).

Disclosure Concerning Forward-looking Statements

Certain statements made in this annual report on form 10-K may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include the risks identified in Item 1A.

PART I

Item 1. BUSINESS

General

Hurco Companies, Inc. is an industrial technology company. We design, manufacture and sell computerized machine tools, consisting primarily of vertical machining centers (mills) and turning centers (lathes), to companies in the metal working industry through a worldwide sales, service and distribution network. Although our computer control systems and software products are proprietary, they predominantly use industry standard personal computer components. Our computer control systems and software products are primarily sold as integral components of our computerized machine tool products. As used in this report, the words "we", "us", "our", "Hurco" and the "Company" refer Hurco Companies, Inc. and its consolidated subsidiaries.

Since our founding in 1968, we have been a leader in the introduction of interactive computer control systems that automate manufacturing processes and improve productivity in the metal parts manufacturing industry. We pioneered the application of microprocessor technology and conversational programming software for use in machine tools. Our computer control systems can be operated by both skilled and unskilled machine tool operators and yet are capable of instructing a machine to perform complex tasks. The combination of microprocessor technology and patented interactive, conversational programming software in our computer control systems enables operators on the production floor to quickly and easily create a program for machining a particular part from a blueprint or computer aided design file and immediately begin machining that part.

Our executive offices and principal design and engineering operations are headquartered in Indianapolis, Indiana, USA. Sales, application engineering and service subsidiaries are located in Canada, China, France, Germany, India, Italy, Poland, Singapore, South Africa, South Korea, and the United Kingdom. We have manufacturing operations in Taiwan and China, and distribution facilities in the USA, the Netherlands, and Singapore.

Our strategy is to design, manufacture and sell a comprehensive line of computerized machine tools that incorporate our proprietary, interactive, computer control technology for the global metalworking market. Our technology is designed to enhance the machine tool user's productivity through ease of operation and higher levels of machine performance (speed, accuracy and surface finish quality). We use an open system software architecture that permits our computer control systems and software to be produced and employed using standard PC hardware. We have emphasized a "user-friendly" design that employs both interactive conversational and graphical programming software. Each year we have expanded our product offering to meet customer needs, which has led us to design and manufacture more complex machining centers with advanced capabilities. We bring a disciplined approach to strategically enter new geographic markets, as appropriate. Combined with a strong worldwide demand for machine tools, our introduction of new, technologically advanced products and expansion into new markets resulted in significant growth between the beginning of fiscal 2003 and the end of fiscal 2008. Since the beginning of fiscal 2009, that growth trend reversed sharply due to the impact of the recent global recession. While we incurred net losses during each quarter of fiscal 2010, we experienced improvement each consecutive quarter of this fiscal year as market conditions started to recover.

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Industry

Machine tool products are considered capital goods, which makes them part of an industry that has historically been highly cyclical.

Although, industry association data for the U.S. machine tool market is available, that market accounts for only 6% of worldwide consumption. Reports available for the U.S. machine tool market include:

- United States Machine Tool Consumption – generated by the Association for Manufacturing Technology and American Machine Tool Distributor Association, this report includes metal cutting machines of all types and sizes, including segments in which we do not compete
- Purchasing Manager's Index - developed by the Institute for Supply Management and reports activity levels in U.S. manufacturing plants that purchase machine tools
- Capacity Utilization of Manufacturing Companies – issued by the Federal Reserve Board

A limited amount of information for foreign markets is available, and different reporting methodologies are used by various countries. Machine tool consumption data published by Gardner Publications, Inc., calculates machine tool consumption annually by country. It is important to note that data for foreign countries is based on government reports that may lag 6 to 12 months and therefore is unreliable for forecasting purposes.

Demand for capital equipment can fluctuate significantly during periods of changing economic conditions as experienced in the recent global recession that began in early fiscal 2009. Manufacturers and suppliers of capital goods, such as us, are often the first to experience these changes in demand. Additionally, since our typical order backlog is approximately 30 to 45 days, it is difficult to estimate demand with any reasonable certainty. Therefore, we do not have the benefit of relying on the common leading indicators that are available to many other industries for market analysis and forecasting purposes.

Products

Our core products consist of general purpose computerized machine tools for the metal cutting industry. These are, principally, vertical machining centers (mills) and turning centers (lathes), with which our proprietary software and computer control systems are fully integrated. We also produce computer control systems and related software for press brake applications that are sold as retrofit units for installation on existing or new press brake machines. Additionally, we produce and distribute software options, control upgrades, hardware accessories, and replacement parts for our machine tool product lines, and we provide operator training and support services to our customers.

The following table sets forth the contribution of each of our product groups to our total sales and service fees during each of the past three fiscal years:

Net Sales and Service Fees by Product Category
(Dollars in thousands)

	Year ended October 31,					
	2010		2009		2008	
Continuing Products and Services						
Computerized Machine Tools	$ 88,184	83.3%	$ 75,213	82.7%	$ 199,238	89.0%
Computer Control Systems and Software *	2,347	2.2%	2,546	2.8%	5,678	2.5%
Service Parts	10,798	10.2%	8,851	9.7%	13,240	5.9%
Service Fees	4,564	4.3%	4,406	4.8%	5,838	2.6%
Total	$ 105,893	100%	$ 91,016	100%	$ 223,994	100%

* Amounts shown do not include computer control systems sold as integrated components of computerized machine tools.

Computerized Machine Tools – Machining and Turning Centers

We design, manufacture and sell computerized machine tools equipped with a fully integrated interactive computer control system that features our WinMax® software. Our computer control system enables a machine tool operator to create complex two-dimensional or three-dimensional machining programs directly from an engineering drawing or computer aided design geometry file. An operator with little or no machine tool programming experience can successfully create a program with minimal training and begin machining the part in a short period of time. The control features an operator console with a liquid crystal display (LCD), and incorporates an upgradeable personal computer (PC) platform using a high speed processor with solid rendering graphical programming. In addition, WinMax® has a Windows®* based operating system to enable users to improve shop floor flexibility and software productivity.

Companies using computer controlled machine tools are better able to:

- maximize the efficiency of their human resources
- make more advanced and complex parts from a wide range of materials using multiple processes
- incorporate fast moving changes in technology into their operations to keep their competitive edge
- integrate into the global supply chain of their customers by supporting small to medium lot sizes for "just in time" initiatives

Our Windows®* based control facilitates our ability to meet these customer needs. The familiar Windows®* operating system coupled with our intuitive conversational style of program creation allows our customers' operators to create and edit part-making programs without incurring the incremental overhead of specialized computer aided design and computer aided manufacturing programmers. With the ability to transfer most computer aided design data directly into a Hurco program, programming time becomes minutes instead of hours.

Machine tool products today are being designed to meet the demand for machining complex parts with greater part accuracies. Our proprietary controls with WinMax® software and high speed processors efficiently handle the large amounts of data these complex part-making programs require, which enables our customers to create parts with higher accuracy at faster speeds. We continue to add technology to our control design as it becomes available.

Our offering of machining centers, currently equipped with either a twin touch-screen console or a single touch-screen console, consists of the following six product lines:

VM Product Line

The VM product line consists of moderately priced vertical machining centers for the entry-level market. Their design premise of a machining center with a large work cube and a small footprint optimizes the use of available floor space. The VM line consists of five models in three sizes with X-axis (horizontal) travels of 26, 40, and 50 inches. The base prices of the VM machines range from $40,000 to $95,000.

VMX Product Line

The VMX product line consists of higher performing vertical machining centers aimed at manufacturers that require greater part accuracy. It is our flagship series of machining centers. The VMX line consists of fourteen models in seven sizes with X-axis travels of 24, 30, 42, 50, 60, 64, and 84 inches. The base prices of VMX machines range from $50,000 to $200,000.

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Five-Axis Product Line

The five-axis product line is targeted at manufacturers seeking to produce complex multi-sided parts in a single setup. Machines in this product line can yield significant productivity gains for manufacturers that previously had to process each side of a part separately. Due to growing market demand for increased processing efficiency, we continued to focus on five-axis technology in fiscal 2010. In total, we have nine five-axis machining centers to offer customers. The base prices of the five-axis machines range from $100,000 to $250,000.

TM/TMM Product Line

Since its introduction in fiscal 2005, we have continued to expand the TM turning center (horizontal slant-bed lathe) product line. The TM series is designed for entry-level job shops and contract manufacturers seeking efficient processing of small to medium lot sizes. The TM is offered in four models TM6, TM8, TM10 and the new TM18L turning center, which accommodates parts as long as 79 inches that are commonly required in the growing energy sector and the aerospace sector. We added motorized tooling on the lathe turret to further enhance the capability of the TM turning centers and designated it as the TMM product line. These turning centers with live tooling allow our customers to complete a number of secondary milling, drilling and tapping operations while the part is still held in the chuck after the turning operations are complete, which provides significant productivity gains. We offer two TMM models. The base prices of the TM/TMM machines range from $40,000 to $225,000.

TMX Product Line

The TMX product line consists of high performance turning centers. We added two TMX models in fiscal 2010, which means we have six TMX models. Two of the models are equipped with an additional axis and motorized live tooling, and two models have an additional spindle. The base prices of TMX turning centers range from $85,000 to $180,000.

Specialty Product Lines

This category includes three product series: the dual column DCX Series, the zone VTXZ Series, and the horizontal HTX Series. The zone VTXZ machining center is designed for production flexibility. The VTXZ can work as a dual work zone machine to support continuous production or a single zone to produce long, structural parts. Both the DCX Series and VTXZ Series are designed to facilitate production of large parts and molds often required by the aerospace and energy industries. The horizontal machining center (HTX) is also included in this category as it facilitates efficient and accurate machining of complex production parts. The base prices of these machines range from $240,000 to $350,000.

*Windows® is a registered trademark of Microsoft Corporation.

Computer Control Systems and Software

The following machine tool computer control systems and software products are sold directly to end-users and/or to original equipment manufacturers.

Autobend®

Autobend® computer control systems are applied to metal bending press brake machines that form parts from sheet metal and steel plate. They consist of a microprocessor-based computer control and back gauge (an automated gauging system that determines where the bend will be made). We have manufactured and sold the Autobend®

product line since 1968. We currently market two models of our Autobend® computer control systems for press brake machines, in combination with six different back gauges, through distributors to end-users as retrofit units for installation on existing or new press brake machines, as well as to original equipment manufacturers and importers.

Software Products

In addition to our standard computer control features, we offer software option products for two-dimensional programming. These products are sold to users of our computerized machine tools equipped with our twin touch-screen or single touch-screen consoles featuring WinMax® control software. The options include: Swept Surface, SelectSurface Finish Quality (SFQ), DXF Transfer, UltiMonitorTM, UltiMotionTM, UltiPocketTM, Conversational Part and Tool Probing, Advanced Verification Graphics, and Simultaneous Five-Axis Contouring.

Our Swept Surface software option simplifies programming of 3D contours and significantly reduces programming time.

SelectSurface Finish Quality (SFQ) lets the customer control surface finish quality and run time in one easy step.

The DXF Transfer software option can increase operator productivity because it eliminates manual data entry of part features by transferring AutoCADTM drawing files directly into our computer control or into our desktop programming software, WinMax® Desktop.

UltiMonitor is a web-based productivity, management and service tool, enabling customers to monitor, inspect and receive notifications about their Hurco machines from any location where they can access the internet. Customers can transfer part designs, receive event notifications via email or text, access diagnostic data, monitor the machine via webcam and communicate with the machine operator.

UltiMotion uses software-based motion control which is more efficient than conventional hardware-based motion control. This software-based motion control system provides significant cycle time reductions, minimizes machine jerk, and increases the quality of the part’s surface finish.

UltiPocketTM automatically calculates the tool path around islands, eliminating the arduous task of plotting these shapes. Islands can also be rotated, scaled and repeated.

Conversational Part and Tool Probing options permit the computerized dimensional measurement of machined parts and the associated cutting tools. This “on-machine” technique improves the throughput of the measurement process when compared to traditional “off-machine” approaches.

The Advanced Verification Graphics feature significantly reduces both scrap and programming time because it provides customers with a three-dimensional solid rendering of the part, including dynamic rotation. This feature allows a customer to view the rendered part from any angle without needing to redraw it.

Simultaneous Five-Axis Contouring software enables a five-axis machine to command motion concurrently on all axes. This allows the user to create continuous tool-paths along complex geometries with only a single machine/part setup, providing increased productivity along with the performance benefits of using shorter cutting tools. The sale of simultaneous five-axis contouring software is subject to government export licensing requirements.

Parts and Service

Our service organization provides installation, warranty, operator training and customer support for our products on a worldwide basis. In the United States, our principal distributors have primary responsibility for machine installation and warranty service and support for product sales. Our service organization also sells software options, computer control upgrades, accessories and replacement parts for our products. Our after-sales parts and service business strengthens our customer relationships and provides continuous information concerning the evolving requirements of end-users.

Manufacturing

Our computerized metal cutting machine tools are manufactured to our specifications primarily by our wholly owned subsidiary in Taiwan, Hurco Manufacturing Limited (HML). HML conducts final assembly operations and is supported by a network of contract suppliers of components and sub-assemblies who manufacture components for our products in accordance with our proprietary designs, quality standards and cost specifications. Our manufacturing facility in Ningbo, China, focuses on the machining of castings to support HML's production in Taiwan as well as producing VM and TM machines specifically for the Chinese market.

We have a contract manufacturing agreement for computer control systems with Hurco Automation, Ltd., a Taiwanese company in which we have a 35% ownership interest. This company produces all of our computer control systems to our specifications, sources industry standard computer components and our proprietary parts, performs final assembly and conducts test operations.

We work closely with our subsidiaries, key component suppliers and our minority-owned affiliate to ensure that their production capacity will be sufficient to meet the projected demand for our machine tool products. Many of the key components used in our machines can be sourced from multiple suppliers. However, any prolonged interruption of operations or significant reduction in the capacity or performance capability at any of our manufacturing facilities, or at any of our key component suppliers, could have a material adverse effect on our operations.

Marketing and Distribution

We sell our products through more than 100 independent agents and distributors throughout North America, Europe and Asia. Although some distributors carry competitive products, we are the primary line for the majority of our distributors globally. We also have direct sales personnel in Canada, China, France, Germany, India, Italy, Poland, Singapore, South Africa, South Korea, the United Kingdom and certain parts of the United States, which are among the world's principal machine tool consuming markets.

Approximately 94% of the worldwide demand for computerized machine tools and computer control systems is outside the United States. In fiscal 2010, more than 70% of our revenues were from overseas customers. No single end-user or distributor of our products accounted for more than 5% of our total sales and service fees.

The end-users of our products are precision tool, die and mold manufacturers, independent metal parts manufacturers, and specialized production application or prototype departments within large manufacturing companies. Industries served include aerospace, defense, medical equipment, energy, automotive/transportation, electronics and computer equipment.

We also sell our Autobend® computer control systems to original equipment manufacturers of new metal fabrication machine tools who integrate them with their own products prior to the sale of those products to their own customers, to retrofitters of used metal fabrication machine tools who integrate them with those machines as part of the retrofitting operation, and to end-users who have an installed base of metal fabrication machine tools, either with or without related computer control systems.

Demand

We believe demand for our products is driven by advances in industrial technology and the related demand for automated process improvements.

Other factors affecting demand include:

- the need to continuously improve productivity and shorten cycle time
- an aging machine tool installed base that will require replacement with more advanced and efficient technology created by shorter product life cycles
- the industrial development of emerging markets in Asia and Eastern Europe
- the declining supply of skilled machinists

Demand for our products is also highly dependent upon economic conditions and the general level of business confidence, as well as such factors as production capacity utilization and changes in governmental policies regarding tariffs, corporate taxation, and other investment incentives. For additional information regarding recent economic conditions and their impact on our results of operations and financial condition, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Competition

We compete with many other machine tool producers in the United States and foreign countries. Most of our competitors are larger and have greater financial resources than our company. Major worldwide competitors include Deckel Maho Gildemeister Group (DMG), Mori Seiki Co., Ltd., Mazak, Haas Automation, Inc., Hardinge, Doosan, Okuma Machinery Works Ltd., Milltronics, and MAG Industrial Automation Systems.

We strive to compete effectively by developing patented software and other proprietary features that offer enhanced productivity, technological capabilities and ease of use. We offer our products in a range of prices and capabilities to target a broad potential market. We also believe that our competitiveness is aided by our reputation for reliability and quality, our strong international sales and distribution organization, and our extensive customer service organization.

Intellectual Property

We consider our products to be proprietary. Various features of our control systems and machine tools employ technologies covered by patents and trademarks that are material to our business. We also own additional patents covering new technologies that we have acquired or developed, and that we are planning to incorporate into our control systems in the future.

Research and Development

In the fiscal years set forth below, non-capitalized research and development expenditures for new products and significant product improvements and expenditures related to software development projects that were capitalized were as follows (in thousands):

Fiscal Year	Non-capitalized research and development	Capitalized software development
2010	$ 2,200	$ 1,200
2009	2,500	2,000
2008	3,000	900

Employees

We had approximately 440 full-time employees at the end of fiscal 2010, none of whom were covered by a collective-bargaining agreement or represented by a union. We have experienced no employee-generated work stoppages or disruptions and we consider our employee relations to be satisfactory.

Geographic Areas

Financial information about geographic areas in which we sell our products is set forth in Note 14 of Notes to Consolidated Financial Statements.

Some of the risks of doing business on a global basis are described in Item 1A. Risk Factors below.

Backlog

For information on orders and backlog, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Availability of Reports and Other Information

Our website can be found at www.hurco.com. We make available on this website, free of charge, access to our annual, quarterly and current reports and other documents filed by us with the Securities and Exchange Commission (SEC) as soon as reasonably practical after the filing date. These reports can also be obtained at the SEC's Public Reference Room at 100 F Street, NE Washington, DC 20549.

Item 1A. RISK FACTORS

In this section we describe what we believe to be the material risks related to our business. The risks and uncertainties described below or elsewhere in this report are not the only ones to which we are exposed. Additional risks and uncertainties not presently known and/or risks we currently deem immaterial may also adversely affect our business and operations. If any of the developments included in the following risks were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected.

The recent global recession has adversely affected overall demand and our customers' ability to purchase our products and services.

The recent global recession and the overall decline in economic activity reduced our sales substantially from pre-recession levels. In addition, banks and other lenders limited the ability of many businesses, including our customers, to access the credit markets. For additional information regarding recent economic conditions and their impact on our results of operations and financial condition, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Although we have seen potential signs of economic recovery and are currently experiencing substantial increases in revenues and new orders, there can be no assurance that there will be a sustained recovery or that our performance will return to pre-recession levels.

The cyclical nature of our business causes fluctuations in our operating results.

The machine tool industry is highly cyclical and changes in demand can occur abruptly in the geographic markets we serve. As a result of this cyclicality, we have experienced significant fluctuations in our sales, which, in periods of reduced demand, have adversely affected our results of operations and financial condition.

Our international operations pose additional risks that may adversely impact sales and earnings.

During fiscal 2010, more than 70% of our revenues were derived from sales to customers located outside the United States. In addition, our manufacturing facilities are located outside of the United States. Our international operations are subject to a number of risks, including:

- trade barriers
- regional economic uncertainty
- differing labor regulation
- governmental expropriation
- domestic and foreign customs and tariffs
-

current and changing regulatory environments affecting the importation and exportation of products and raw materials

- difficulty in obtaining distribution support
- difficulty in staffing and managing widespread operations

- differences in the availability and terms of financing
- political instability and unrest
- changes in tax regulations and rates in foreign countries

Quotas, tariffs, taxes or other trade barriers could require us to change manufacturing sources, reduce prices, increase spending on marketing or product development, withdraw from or not enter certain markets or otherwise take actions that could be adverse to us. Also, in some foreign jurisdictions, we may be subject to laws limiting the right and ability of entities organized or operating therein to pay dividends or remit earnings to affiliated companies unless specified conditions are met. These factors may adversely affect our future operating results. The vast majority of our products are shipped from our manufacturing facility in Taiwan from the Port of Taichung to three ports of destination: Los Angeles, California, Venlo, the Netherlands, and Singapore. Changes in customs requirements, as a result of national security or other constraints put upon these ports, may also have an adverse impact on our results of operations.

We depend on limited sources for our products.

Our wholly owned subsidiary in Taiwan, Hurco Manufacturing Ltd. (HML), produces the vast majority of our machine tools. An unplanned interruption in manufacturing at HML would have a material adverse effect on our results of operations and financial condition. Such an interruption could result from a change in the political environment in Taiwan or a natural disaster, such as an earthquake, typhoon, or tsunami. Any interruption in service by one of our key component suppliers, if prolonged, also could have a material adverse effect on our results of operations and financial condition.

Fluctuations in the exchange rates between the U.S. Dollar and any of several foreign currencies can increase our costs and decrease our revenues.

Our foreign sales generate more than 70% of our revenues, which are invoiced and received in several foreign currencies, primarily the Euro and Pound Sterling. Therefore, our results of operations and financial condition are affected by fluctuations in exchange rates between these currencies and the U.S. Dollar, both for purposes of actual conversion and for financial reporting purposes. In addition, we are exposed to exchange risk associated with our purchases of materials and components for our Taiwan manufacturing operations, which are primarily made in the New Taiwan Dollar. We hedge our foreign currency exposure with the purchase of forward exchange contracts. These hedge contracts only mitigate the impact of changes in foreign currency rates that occur during the term of the related contract period and carry risks of counter-party failure. There can be no assurance that our hedges will have the intended effects. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 of Notes to Consolidated Financial Statements for the impact of translation of foreign currencies and hedging on our consolidated financial statements.

Our competitive position and prospects for growth may be diminished if we are unable to develop and introduce new and enhanced products on a timely basis that are accepted in the market.

The machine tool industry is subject to technological change, evolving industry standards, changing customer requirements, and improvements in and expansion of product offerings. Our ability to anticipate changes in technology, industry standards, customers' requirements and competitors' product offerings and to develop and introduce new and enhanced products on a timely basis that are accepted in the market, are significant factors in maintaining and improving our competitive position and growth prospects. If the technologies or standards used in our products become obsolete or fail to gain widespread commercial acceptance, our business would be materially adversely affected. Although we believe that we have the technological capabilities to remain competitive, developments by others may render our products or technologies obsolete or noncompetitive.

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We compete with larger companies that have greater financial resources, and our business could be harmed by competitors' actions.

The markets in which our products are sold are extremely competitive and highly fragmented. In marketing our products, we compete with other manufacturers in terms of quality, reliability, price, value, delivery time, service and technological characteristics. We compete with a number of U.S., European and Asian competitors, most of which are larger, have substantially greater financial resources and are supported by governmental or financial institution subsidies and therefore may have competitive advantages over us. While we believe our product lines compete effectively, our financial resources are limited compared to those of most of our competitors, making it challenging to remain competitive.

Fluctuations in the price of raw materials, especially steel and iron, could adversely affect our sales, costs and profitability.

We manufacture products with a high iron and steel content for which worldwide prices have been increasing. The availability and price for these and other raw materials are subject to volatility due to worldwide supply and demand forces, speculative actions, inventory levels, exchange rates, production costs and anticipated or perceived shortages. In some cases, those cost increases can be passed on to customers in the form of price increases; in other cases they cannot. If the prices of raw materials increase and we are not able to charge our customers higher prices to compensate, our results of operations would be adversely affected.

Due to future changes in technology, changes in market demand, or changes in market expectations, portions of our inventory may become obsolete or excess.

The technology within our products changes and generally new versions of machines are brought to market, in three-year to five-year cycles. The phasing out of an old product involves estimating the amount of inventory to hold to satisfy the final demand for those machines and to satisfy future repair part needs. Based on changing customer demand and expectations of delivery times for repair parts, we may find that we have either obsolete or excess inventory on hand. Because of unforeseen future changes in technology, market demand or competition, we might have to write off unusable inventory, which would adversely affect our results of operations.

We may make acquisitions that could disrupt our operations and harm our operating results.

Although we have no current plans for any material acquisitions, we may seek to expand our product offerings or the markets we serve by acquiring other companies, product lines, technologies and personnel. Acquisitions involve numerous risks, including the following:

- difficulties integrating the operations, technologies, products, and personnel of the acquired companies
- diversion of management's attention from normal daily operations of the business
- potential difficulties completing projects associated with in-process research and development
- difficulties entering markets in which we have no or limited prior experience, especially when competitors in such markets have stronger market positions
- initial dependence on unfamiliar supply chains or relatively small supply partners
- insufficient revenues to offset increased expenses associated with acquisitions
- the potential loss of key employees of the acquired companies

Acquisitions may also cause us to:

- issue common stock that would dilute our current shareholders' percentage ownership

- assume liabilities
- record goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges

- incur amortization expenses related to certain intangible assets
- incur large and immediate write-offs, and restructuring and other related expenses
- become subject to litigation

Mergers and acquisitions are inherently risky. No assurance can be given that our acquisitions will be successful. Further, no assurance can be given that acquisitions will not adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions could harm our business and operating results in a material way. Even when an acquired company has already developed and marketed products, there can be no assurance that product enhancements will be made in a timely manner or that pre-acquisition due diligence will identify all possible issues that might arise with respect to such products.

Risks related to new product development also apply to acquisitions. For additional information, please see the risk factor above entitled, "Due to future changes in technology, changes in market demand, or changes in market expectations, portions of our inventory may become obsolete or excess."

Assets may become impaired, requiring us to record a significant charge to earnings.

We review our assets for indications of impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We could be required to record a significant charge to earnings in our financial statements for the period in which any impairment of these assets is determined, which would adversely affect our results of operations for that period.

The Company may experience negative or unforeseen tax consequences.

The Company may experience negative or unforeseen tax consequences. The Company reviews the probability of the realization of our net deferred tax assets each period based on forecasts of taxable income in both the U.S. and foreign jurisdictions. This review uses historical results, projected future operating results based upon approved business plans, eligible carryforward periods, tax-planning opportunities and other relevant considerations. Adverse changes in the profitability and financial outlook in the U.S. or foreign jurisdictions may require the creation of a valuation allowance to reduce our net deferred tax assets. Such changes could result in material non-cash expenses in the period in which the changes are made and could have a material adverse impact on the Company's results of operations and financial condition.

Our continued success depends on our ability to protect our intellectual property.

Our future success depends in part upon our ability to protect our intellectual property. We rely principally on nondisclosure agreements, other contractual arrangements, trade secret law, trademark registration and patents to protect our intellectual property. However, these measures may be inadequate to protect our intellectual property from infringement by others or prevent misappropriation of our proprietary rights. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do U.S. laws. Our inability to protect our proprietary information and enforce our intellectual property rights through infringement proceedings could have a material adverse effect on our business, financial condition and results of operations.

The unplanned loss of current members of our senior management team and other key personnel may adversely affect our operating results.

The unexpected loss of senior management or other key personnel could impair our ability to carry out our business plan. We believe that our future success will depend in part on our ability to attract and retain highly skilled and qualified personnel. The loss of senior management or other key personnel may adversely affect our operating results as we incur costs to replace the departed personnel and potentially lose opportunities in the transition of important job functions.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The following table sets forth the principal use, location, and size of each of our facilities:

Principal Uses	Locations	Square Footage
Corporate headquarters, design and engineering, product testing, sales and marketing, application engineering and customer service.	Indianapolis, Indiana, USA (1)	165,000
Manufacturing	Taichung, Taiwan	229,100
	Ningbo, China	61,200
Sales, design engineering, product testing and customer service.	Dexter, Michigan, USA	3,000
Sales, application engineering & customer service.	Mississauga, Canada	3,600
	High Wycombe, England	12,000
	Benoni, South Africa	2,500
	Paris and Toulouse, France	11,100
	Munich, Hagen and Roedermark, Germany	24,200
	Milan, Italy	10,800
	Tegelen, the Netherlands	800
	South Korea	700
	Singapore	6,300
	Shanghai, China	8,000
	Guangzhou, China	4,000
	Ningbo, China	3,200
	Chennai, India	6,100
	Liegnitz, Poland	2,900
	Grand Rapids, Michigan, USA	5,000
	Ball Ground, Georgia, USA	2,300
Warehouse, distribution, sales, application engineering and customer service.	Los Angeles, California, USA	13,100

(1) Approximately 50,000 square feet is leased to a third-party under a lease, which expires October 31, 2011.

We own the Indianapolis facility and lease all other facilities. The leases have terms expiring at various dates ranging from February 2011 to May 2017. We believe that all of our facilities are well maintained and are adequate for our needs now and in the foreseeable future. We do not believe that we would experience any difficulty in replacing any of the present facilities if any of our leases were not renewed at expiration.

Item 3. LEGAL PROCEEDINGS

We are involved in various claims and lawsuits arising in the normal course of business. We do not expect any of these claims, individually or in the aggregate, to have a material adverse effect on our financial position or results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Executive Officers of the Registrant

Executive officers are elected each year by the Board of Directors at the first board meeting following the Annual Meeting of Shareholders to serve during the ensuing year and until their respective successors are elected and qualified. There are no family relationships between any of our executive officers or between any of them and any of the members of the Board of Directors.

The following information sets forth as of October 31, 2010, the name of each executive officer and his or her age, tenure as an officer, principal occupation and business experience for the last five years:

Name	Age	Position(s) with the Company
Michael Doar	55	Chairman of the Board, Chief Executive Officer and President
John G. Oblazney	42	Vice President, Secretary, Treasurer and Chief Financial Officer
John P. Donlon	53	Executive Vice President, Worldwide Sales and Service
Sonja K. McClelland	39	Corporate Controller, Assistant Secretary
Gregory S. Volovic	46	Executive Vice President of Technology and Operations

Michael Doar was elected Chairman of the Board and Chief Executive Officer on November 14, 2001, and President upon the resignation of Jim Fabris effective October 31, 2009. Mr. Doar had held various management positions with Ingersoll Milling Machine Company from 1989 until 2001. Mr. Doar has been a director of Hurco since 2000.

John G. Oblazney was elected Vice President, Secretary, Treasurer and Chief Financial Officer in September 2006. Prior to joining us, Mr. Oblazney served as the Chief Financial Officer of Carrier Corporation's Light Commercial Business, a division of United Technologies Corporation, since December 2005. Prior to that, Mr. Oblazney served in various other financial positions with Carrier Corporation from 2000 to 2005. Prior to joining Carrier Corporation, Mr. Oblazney was employed for six years with Cooper Industries and employed for three years by an international public accounting firm.

John P. Donlon has been employed by us since April 2010 as Executive Vice President, Worldwide Sales and Service. Prior to joining us, Mr. Donlon served as the Vice President of Sales for Yaskawa America Robotics since 2008. From 2004 to 2008, Mr. Donlon served as the Vice President of Sales and Marketing for Ansaldo STS, a worldwide supplier of automation technologies to the rail industry. Earlier in his career, Mr. Donlon held executive sales and management positions with other multi-national companies including Honeywell and ABB, and he has significant international experience in the emerging markets of China, Russia and Brazil.

Sonja K. McClelland has been employed by us since September 1996 and was elected Corporate Controller, Assistant Secretary in November 2004. Ms. McClelland served as Corporate Accounting Manager from September 1996 to 1999, then as Division Controller for Hurco USA from September 1999 to November 2004. Prior to joining us, Ms. McClelland was employed for three years by an international public accounting firm.

Gregory S. Volovic has been employed by us since March 2005 and has been Executive Vice President of Technology and Operations since October 2009. Mr. Volovic previously held the position of Executive Vice President, Software & Engineering. Prior to joining us, Mr. Volovic held various positions with Thomson, Inc. including Director of E-Business, Engineering, and Information Technology. Prior to that, Mr. Volovic was employed by Unisys Corporation.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Select Market under the symbol "HURC". The following table sets forth the high and low sale prices of the shares of our common stock for the periods indicated, as reported by the Nasdaq Global Select Market.

	2010		2009	
Fiscal Quarter Ended:	High	Low	High	Low
January 31	$ 18.59	$ 13.83	$ 24.68	$ 11.81
April 30	20.18	16.11	16.97	8.30
July 31	19.50	14.29	19.89	12.01
October 31	19.15	15.53	20.45	15.26

On January 7, 2011, the closing price of our common stock on the Nasdaq Global Select Market was $24.90.

We do not currently pay dividends on our common stock and intend to continue to retain earnings for working capital and capital expenditures.

There were 175 holders of record of our common stock as of January 7, 2011.

During the period covered by this report, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

The disclosure under the caption "Equity Compensation Plan Information" is included in Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Item 6. SELECTED FINANCIAL DATA

The Selected Financial Data presented below has been derived from our consolidated financial statements for the years indicated and should be read in conjunction with the consolidated financial statements and related notes set forth elsewhere herein and Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended October 31				
	2010	2009	2008	2007	2006
Statement of Operations Data:	(Dollars in thousands, except per share amounts)				
Sales and service fees	$ 105,893	$ 91,016	$ 223,994	$ 188,047	$ 148,517
Gross profit	21,796	25,828	82,617	71,082	53,325
Selling, general and administrative expenses	29,837	30,874	46,811	40,124	30,697
Operating income (loss)	(8,041)	(5,046)	35,806	30,958	22,628
Other income (expense)	(818)	1,234	(1,640)	1,742	745
Net income (loss)	(5,744)	(2,321)	22,520	20,889	15,479
Earnings (loss) per common share- diluted	(0.89)	(0.36)	3.49	3.24	2.42
Weighted average common shares outstanding-diluted	6,441	6,429	6,444	6,440	6,397

	As of October 31				
	2010	2009	2008	2007	2006
Balance Sheet Data:	(Dollars in thousands)				
Current assets	$ 136,208	$ 118,264	$ 151,312	$ 139,265	$ 103,434
Current liabilities	42,240	20,807	51,129	63,215	44,340
Working capital	93,968	97,457	100,183	76,050	59,094
Current ratio	3.2	5.7	3.0	2.2	2.3
Total assets	160,346	144,743	177,444	163,781	125,545
Non-current liabilities	3,366	3,560	2,838	2,963	5,830
Total debt	—	—	—	—	4,010
Shareholders' equity	114,740	120,376	123,477	97,603	75,375

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

Hurco Companies, Inc. is an industrial technology company operating in a single segment. We design and produce computerized machine tools, featuring our proprietary computer control systems and software, for sale through our own distribution network to the worldwide metal cutting market. We also provide software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

The following overview is intended to provide a brief explanation of the principal factors that have contributed to our recent financial performance. This overview is intended to be read in conjunction with the more detailed information included in our audited financial statements that appear elsewhere in this report.

Until the recent global recession, we had experienced a period of sustained growth in sales and earnings due to the strong worldwide demand for machine tools, the expansion of our product line to include higher-priced and higher-margin products, increased customer acceptance of our products, and the strength of our selling and manufacturing operations outside the United States. The recession adversely affected our operational performance and its lingering effects have reduced global demand for machine tools.

The market for machine tools is international in scope. We have both significant foreign sales and foreign manufacturing operations. During fiscal 2009, approximately 66% of our revenues were attributable to customers located in Europe and 6% of our sales were attributable to customers located in Asia. During fiscal 2010, 62% of our revenues were attributable to customers in Europe and 12% of our sales were attributable to customers in Asia, reflecting increased market demand in the Asia Pacific region where we sell more of our entry-level, lower-priced machines, but where we also encounter competitive price pressures. In contrast, in Europe, we typically sell our higher performance VMX series machines at higher prices and margins. We sell our products through more than 100 independent agents and distributors in countries throughout North America, Europe and Asia. We also have our own direct sales and service organizations in Canada, China, France, Germany, India, Italy, Poland, Singapore, South Africa, South Korea, the United Kingdom and certain parts of the United States. The vast majority of our machine tools are manufactured to our specifications primarily by our wholly owned subsidiary in Taiwan, Hurco Manufacturing Limited (HML). Machine castings and components to support HML's production are manufactured at our facility in Ningbo, China. We also manufacture machine tools for the Chinese market at the Ningbo plant.

Our sales to foreign customers are denominated, and payments by those customers are made, in the prevailing currencies—primarily the Euro and Pound Sterling—in the countries in which those customers are located. Our product costs are incurred and paid primarily in the New Taiwan Dollar and the U.S. Dollar. Changes in currency exchange rates may have a material effect on our operating results and consolidated balance sheets as reported under U.S. Generally Accepted Accounting Principles. For example, when the U.S. Dollar weakens in value relative to a foreign currency, sales made, and expenses incurred, in that currency when translated to U.S. Dollars for reporting in our financial statements, are higher than would be the case when the U.S. Dollar is stronger. In the comparison of our period-to-period results, we discuss the effect of currency translation on those results including the increases or decreases in those results as reported in our financial statements (which reflect translation to U.S. Dollars at exchange rates prevailing during the period covered by those financial statements) and also the effect that changes in exchange rates had on those results.

Our high levels of foreign manufacturing and sales also subject us to cash flow risks due to fluctuating currency exchange rates. We seek to mitigate those risks through the use of various derivative instruments – principally foreign currency forward exchange contracts.

In response to the global recession, beginning in the fourth quarter of fiscal 2008, we implemented various cost saving initiatives that ultimately served to reduce expenses by an amount in excess of $15 million annually, while staying committed to our strategic plan of technological development, product innovation and increased penetration of developing markets. We also implemented an inventory reduction plan that allowed us the flexibility to cut back our production for a period of twelve months to a level substantially lower than that prevailing during the previous three years in order to bring inventory levels in line with demand.

Based upon our current inventory position and order levels, we have increased our production levels to be in line with the current trend of increasing order demand. Our ability to invest in our sales organization and product development during the worst economic downturn in the history of the machine tool industry, should allow us to capitalize on this increasing demand.

Recently we have had a significant upturn in our business. During the fourth quarter of fiscal 2010, orders were 80% higher than in the fourth quarter of fiscal 2009. Sales for the fourth quarter of fiscal 2010 were 50% above those in the fourth quarter of fiscal 2009 and represented the fifth consecutive quarter of increased sales. The improvement in sales, combined with an increase in the number of higher performance VMX series machines sold in Europe, raised our gross margin rate for the fourth quarter of fiscal 2010 to 24.4%, compared to a gross margin rate of 18.7% for the combined first three quarters of fiscal 2010.

Results of Operations

The following table presents, for the fiscal years indicated, selected items from the Consolidated Statements of Operations expressed as a percentage of our worldwide sales and service fees and the year-to-year percentage changes in the dollar amounts of those items.

	Percentage of Revenues			Year-to-Year % Change Increase (Decrease)	
	2010	2009	2008	’10 vs. ’09	’09 vs. ’08
Sales and service fees	100.0%	100.0%	100.0%	16.3%	(59.4)%
Gross profit	20.6%	28.4%	36.9%	(15.6)%	(68.7)%
Selling, general and administrative expenses	28.2%	33.9%	20.9%	(3.4)%	(34.0)%
Operating income (loss)	(7.6)%	(5.5)%	16.0%	(59.4)%	(114.1)%
Other income (expense)	(0.8)%	1.4%	(0.7)%	(166.3)%	175.2%
Net income (loss)	(5.4)%	(2.6)%	10.1%	(147.5)%	(110.3)%

Fiscal 2010 Compared to Fiscal 2009

Sales and Service Fees. Annual sales and service fees for fiscal 2010 were $105.9 million, an increase of $14.9 million, or 16.3%, from fiscal 2009. There was no material impact on the year-over-year increase due to foreign currency translation.

Since the beginning of fiscal 2009, our net sales have been materially adversely affected by the global recession as customers deferred or eliminated investments in capital equipment. Additionally, customers who might otherwise have been willing to purchase capital goods found it difficult to obtain financing due to the contraction of the credit markets. We consider the increase in net sales we experienced in fiscal 2010 as an indication of a broader global recovery. However, economic conditions in the United States and Europe remain uncertain and it remains to be seen when we will be able to return to our pre-recession performance.

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Net Sales and Service Fees by Geographic Region

The following table sets forth net sales and service fees by geographic region for the fiscal years ended October 31, 2010 and 2009 (in thousands):

	October 31,				Increase (Decrease)	
	2010		2009		Amount	%
North America	$ 27,818	26.3%	$ 25,652	28.2%	$ 2,167	8.4%
Europe	65,678	62.0%	60,132	66.1%	5,547	9.2%
Asia Pacific	12,397	11.7%	5,232	5.7%	7,163	136.9%
Total	$ 105,893	100.0%	$ 91,016	100.0%	$ 14,877	16.3%

The significant percentage increase in sales in the Asia Pacific region during fiscal 2010 was primarily the result of substantially increased market penetration in China and India, strong demand for our entry-level, lower-priced machines, as well as continued growing demand in the other Asia Pacific territories. In fiscal 2010, unit shipments decreased 5% in North America, increased by 10% in Europe and 157% in Asia compared to fiscal 2009.

Net Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product category for the years ended October 31, 2010 and 2009 (in thousands):

	October 31,				Increase	
	2010		2009		Amount	%
Computerized Machine Tools	$ 88,184	83.3%	$ 75,213	82.6%	$ 12,971	17.2%
Service Fees, Parts and Other	17,709	16.7%	15,803	17.4%	$ 1,906	12.1%
Total	$ 105,893	100.0%	$ 91,016	100.0%	$ 14,877	16.3%

Orders and Backlog. New order bookings in fiscal 2010, were $115.3 million, an increase of $34.7 million, or 43.1%, over the prior year. Approximately half of the year-over-year increase in orders occurred in the fourth quarter of fiscal 2010, reflecting strong customer demand in all geographic sales regions. Orders increased in North America by $8.9 million, or 38%, in Europe by $14.8 million, or 28%, and in the Asia Pacific region by $11.0 million, or by 288%, in each case as compared to fiscal 2009. Orders for fiscal 2010 as a whole were unfavorably affected by approximately $281,000, or 0.8%, compared to fiscal 2009 due to changes in currency exchange rates. Unit orders increased 25% in North America, 27% in Europe and 281% in the Asia Pacific region. Backlog was $15.6 million at October 31, 2010, compared to $6.3 million at October 31, 2009. We do not believe backlog is a useful measure of past performance or indicative of future performance. Backlog orders as of October 31, 2010 are expected to be fulfilled in fiscal 2011.

Gross Profit. Gross profit for fiscal 2010 was 20.6%, compared to 28.4% for fiscal 2009. The decrease in profit as a percentage of sales was the result of higher allocated fixed costs per machine as machines we sold during the period were produced at a time of reduced production levels. Also contributing to the decrease in gross profit was a product mix that included a greater amount of our entry-level machines that were in high demand in the Asia Pacific region where competitive price pressure is a strong factor.

Operating Expenses. Selling, general and administrative expenses were $29.8 million for fiscal 2010, a decrease of $1.0 million, or 3.4%, from fiscal 2009. These reductions reflect the benefits of cost reduction initiatives implemented during the recession.

Operating Income (Loss). We incurred an operating loss for fiscal 2010 of $8.0 million, or 7.6% of sales, compared to operating loss of $5.0 million, or 5.5% of sales, in fiscal 2009. The increase in the operating loss year-over-year was primarily the result of higher allocated fixed costs per machine due to reduced production levels. Also contributing to the increase in operating loss was a product mix that included a greater amount of our entry-level machines that were in high demand in the Asia Pacific region.

Other (Income) Expense. The $2.1 million decrease in other income for fiscal 2010 in comparison to fiscal 2009 was primarily due to net realized gains of $2.0 million in fiscal 2009 from cash flow hedges of forecasted inter-company sales and purchases that became ineffective as we reduced production levels during that year.

Provision (Benefit) for Income Taxes. Our effective tax rate for fiscal 2010 was a benefit of 35.2%, compared to a benefit of 39.1% for fiscal 2009. The change in the effective tax rate was primarily due to the net impact of recording a valuation allowance on our state net operating loss carryforwards and the reversal of tax reserves for uncertain tax positions taken in previous years now expiring due to statutes of limitations. We regularly review our recent results and projected future results of operations, as well as other relevant factors, to reconfirm the likelihood that our state net operating loss carryforwards in each tax jurisdiction would be fully recoverable.

Net Income (Loss). Net loss for fiscal 2010 was $5.7 million, or $0.89 per diluted share, which is a decrease of $3.4 million from fiscal 2009 net loss of $2.3 million, or $0.36 per diluted share.

Fiscal 2009 Compared to Fiscal 2008

Sales and Service Fees. Annual sales and service fees for fiscal 2009 were $91.0 million, a decrease of $133.0 million, or 59.4%, from fiscal 2008 as a result of the global recession. Of this decrease, $7.9 million was attributable to the unfavorable effect of a strengthening U.S. Dollar on currency translation.

Beginning in early fiscal 2009, our net sales were materially adversely affected by the global recession as customers deferred or eliminated investments in capital equipment. Additionally, customers who might otherwise have been willing to purchase capital goods found it difficult to obtain financing due to the contraction of the credit markets.

Net Sales and Service Fees by Geographic Region

The following table sets forth net sales and service fees by geographic region for the years ended October 31, 2009 and 2008 (in thousands):

	October 31,				Increase (Decrease)	
	2009		2008		Amount	%
North America	$ 25,652	28.2%	$ 48,373	21.6%	$ (22,721)	(47.0)%
Europe	60,132	66.1%	163,807	73.1%	(103,675)	(63.3)%
Asia Pacific	5,232	5.7%	11,814	5.3%	(6,582)	(55.7)%
Total	$ 91,016	100.0%	$ 223,994	100.0%	$ (132,978)	(59.4)%

The significant decreases in net sales in all three geographic regions reflected the depth and scope of the global recession. During fiscal 2009, adverse economic conditions had the greatest impact on our European sales region, the primary market for our more expensive, higher-margin machines. The European sales region accounted for 66% of sales in fiscal 2009 and 73% in fiscal 2008. In fiscal 2009, unit shipments decreased by 58% in Europe and 55% in North America and Asia from fiscal 2008 levels.

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Net Sales and Service Fees by Product Category

The following table sets forth net sales and service fees by product category for the years ended October 31, 2009 and 2008 (in thousands):

	October 31,				Increase	
	2009		2008		Amount	%
Computerized Machine Tools	$ 75,213	82.6%	$ 199,238	88.9%	$ (124,025)	(62.2)%
Service Fees, Parts and Other	15,803	17.4%	24,756	11.1%	(8,953)	(36.2)%
Total	$ 91,016	100.0%	$ 223,994	100.0%	$ (132,978)	(59.4)%

500,000

212,250

79,650

750,000

—

—

1,541,900

2006

400,000

148,300

79,650

600,000

—

—

1,227,950

Linda H. Graham

2008

165,000

	83,440
	660
	94,050
	199,510
	4,650
	547,310
Vice President and Secretary	
	2007
	150,000
	76,200
	7,970
	97,500
	—
	4,990
	336,660
	2006
	135,000
	63,280
	10,100
	108,000
	—
	3,940
	320,320

(1) These respective amounts represent the dollar amount recognized for financial reporting purposes with respect to each fiscal year for prior year option grants and current year and prior year grants of restricted Common Stock awarded under our Stock Incentive Plan, all computed in accordance with Statement of Financial Accounting Standard ("SFAS") No. 123R. Please refer to Note 10 to our Financial Statements contained in our Form 10-K for

the period ended December 31, 2008 for a discussion of the assumptions used in these computations. For this computation, we do not include an assumption for estimated forfeitures. Our Form 10-K has been included in our Annual Report and provided to our stockholders.

(2) Bonuses under the Management Incentive Plan are accrued in the fiscal year earned and paid in the following fiscal year.

(3) The actuarial present value of Mr. Ben Palmer's accumulated benefit under the defined benefit plan decreased during 2008 by approximately ($1,600). Change represents impact of change in discount rate only as no additional benefits are being accrued.

(4) All other compensation for 2008 includes the following items for:

Mr. Richard A. Hubbell:	Insurance on automobile provided by the Company, cost of dining club dues, cost of gasoline for personal automobile, 401(k) Plan Company match of $6,900 and contribution towards enhanced benefits of $26,262.
Mr. Ben M. Palmer:	Automobile allowance, cost of gasoline for personal automobile and 401(k) Plan Company match of $6,900.
Ms. Linda H. Graham:	401(k) Plan Company match of $4,650.

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1) Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards ($) (2)
Mr. Richard A. Hubbell	1/22/08	175,000	700,000	1,050,000		
	1/22/08				20,000	196,200
Mr. Ben M. Palmer	1/22/08	62,500	250,000	375,000		
	1/22/08				10,000	98,100
Mr. R. Randall Rollins	1/22/08	150,000	600,000	900,000		
	1/22/08				20,000	196,200
Ms. Linda H. Graham	1/22/08	16,500	66,000	132,000		
	1/22/08				5,000	49,050

(1) These amounts illustrate the potential bonus awards under the Management Incentive Plan for 2008 that were paid out in early 2009. See Summary Compensation Table on page 18 for actual amounts awarded in 2008.

(2) These amounts represent aggregate grant date fair value for grants of restricted shares of Common Stock awarded in fiscal year 2008 under our Stock Incentive Plan computed in accordance with SFAS 123R. Please refer to Note 10 to our Financial Statements contained in our Form 10-K for the period ended December 31, 2008 for a discussion of assumptions used in this computation. For this computation, we do not include an assumption for estimated forfeitures. Our Form 10-K has been included in our Annual Report and provided to our stockholders.

The table above reflects grants of restricted shares of Company Common Stock under our Stock Incentive Plan awarded in fiscal year 2008. All grants of restricted shares of Common Stock vest one-fifth per year beginning on the second anniversary of the grant date. Restricted shares have full voting and dividend rights. However, until the shares vest, they cannot be sold, transferred or pledged. Should the executive leave our employment for any reason prior to the vesting dates (other than due to death, disability or retirement on or after age 65), the unvested shares will be forfeited. We have not issued any stock options since 2003 and have no immediate plans to issue additional stock options.

The Company's employment contracts with its Chief Executive Officer and the Company's other executive officers are oral, at will arrangements. All of the executive officers are eligible for annual cash bonuses which are awarded under the Management Incentive Plan. The Compensation Committee's decisions are based upon broad performance objectives under that plan. The executive officers are eligible to receive shares of Company Common Stock subject to options and restricted shares of Company Common Stock under the Company's Stock Incentive Plans, in such amounts and with such terms and conditions as determined by the Compensation Committee at the time of grant. All of the executive officers are eligible to participate in the Company's SRP. The executive officers are eligible to participate in the Company's regular employee benefit programs, including the 401(k) Plan with Company match, group life insurance, group medical and dental coverage, vision and other group benefit plans. All of the executive officers are eligible for the Retirement Income Plan that was frozen in March 2002. For more information on these plans, see "Compensation Discussion and Analysis" at page 13, and "Benefit Plans" at page 22.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The table below sets forth details concerning outstanding option awards made in prior years to the executives named in our Summary Compensation Table, including the grant date, the expiration date, the option exercise price, and the number of shares of Common Stock underlying the grants both exercisable and un-exercisable. The grant dates for all of these options are from fiscal year ended 2003 and earlier since we have not issued any stock options after 2003. The table below also sets forth the total number of restricted shares of Common Stock that were granted in prior years to the executives named in our Summary Compensation Table but which have not yet vested, together with the market value of these unvested shares based on the $9.76 closing price of our Common Stock on December 31, 2008.

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date (1)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Richard A. Hubbell	173,669	—	1.79	1/26/2009(2)(5)	165,925(6)	1,619,430
	168,748	—	3.88	4/24/2011(3)		
	84,375	—	2.81	1/28/2013(4)		
Ben M. Palmer	—	—	—	—	118,725(6)	1,158,760
R. Randall Rollins	—	—	—	—	91,000(6)	888,160
Linda H. Graham	12,766	—	1.79	1/26/2009(2)	32,875(6)	320,860
	16,875	—	3.88	4/24/2011(3)		
	33,750	—	2.81	1/28/2013(4)		

(1) Unless otherwise noted, all options have ten year terms with vesting as follows: The options vest one-fifth per year beginning on the first anniversary of the grant date.

(2) Options granted 01/26/1999.

(3) Options granted 04/24/2001.

(4) Options granted 01/28/2003.

(5) Also includes 138,934 options granted 01/26/1999 that vest ratably over four years.

(6) 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 starting in 2004 vest one-fifth per year beginning on the second anniversary of the grant date. 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 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. The Company has not granted performance restricted shares since 2003. Shares of restricted stock granted to the executive officers that have not vested as of December 31, 2008 are summarized in the table below:

Name	Number of shares	Grant Date	Date fully vested
Richard A. Hubbell	50,625	1/26/1999	1/26/2009
	27,000	4/27/2004	4/27/2010
	24,300	1/25/2005	1/25/2011
	24,000	1/24/2006	1/24/2012
	20,000	1/23/2007	1/23/2013
	20,000	1/22/2008	1/22/2014
Ben M. Palmer	10,125	1/26/1999	1/26/2009
	40,500	4/24/2001	4/24/2011
	13,500	1/28/2003	10/28/2009
	10,800	4/27/2004	4/27/2010
	16,200	1/25/2005	1/25/2011
	9,600	1/24/2006	1/24/2012
	8,000	1/23/2007	1/23/2013
	10,000	1/22/2008	1/22/2014
R. Randall Rollins	27,000	4/27/2004	4/27/2010
	24,000	1/24/2006	1/24/2012
	20,000	1/23/2007	1/23/2013
	20,000	1/22/2008	1/22/2014
Linda H. Graham	6,750	4/27/2004	4/27/2010
	10,125	1/25/2005	1/25/2011
	6,000	1/24/2006	1/24/2012
	5,000	1/23/2007	1/23/2013
	5,000	1/22/2008	1/22/2014

OPTION EXERCISES AND STOCK VESTED

The following table sets forth:

- the number of shares of Common Stock acquired by the executives named in the Summary Compensation Table upon the exercise of stock options during the fiscal year ended December 31, 2008;
- the aggregate dollar amount realized on the exercise date for such options computed by multiplying the number of shares acquired by the difference between the market value of the shares on the exercise date and the exercise price of the options;
- the number of restricted shares of Common Stock acquired by the executives named in the Summary Compensation Table upon the vesting of shares during the fiscal year ended December 31, 2008; and
- the aggregate dollar amount realized on the vesting date for such restricted stock computed by multiplying the number of shares which vested by the market value of the shares on the vesting date.

	Option Awards (1)		Stock Awards
Name	Number of Shares	Value Realized	Number of Shares

	Acquired on Exercise (#)	on Exercise ($)	Acquired on Vesting (#)	Value Realized on Vesting ($)
Richard A. Hubbell	127,695	2,440,960	27,600	329,590
Ben M. Palmer	10,125	117,650	30,075	317,570
R. Randall Rollins	337,500	875,980	19,500	247,050
Linda H. Graham	10,215	76,920	15,000	157,090

(1) The shares acquired on exercise of options are restricted for a period of one year from the date of exercise.

BENEFIT PLANS

The table below shows the present value of accumulated benefits payable to each of the named executive officers, including the number of years of service credited to each such named executive officer, under the Retirement Income Plan determined using interest rate and mortality rate assumptions consistent with those used in the Company's financial statements. Information regarding the Retirement Income Plan can be found under Note 10 to our Financial Statements contained in our Form 10-K for the period ended December 31, 2008.

Pension Benefits

Name	Plan Name	Number of Years Credited Service (#) (1)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Mr. Richard A. Hubbell	Retirement Income Plan	15	385,542	—
Mr. Ben M. Palmer	Retirement Income Plan	4	30,233	—
Mr. R. Randall Rollins	Retirement Income Plan	30	2,375,954	261,600
Ms. Linda H. Graham	Retirement Income Plan	15	431,602	36,530

(1) The difference in years of credited and actual service is due to the freezing of benefit accruals in 2002. See discussion below for further details.

The Company's Retirement Income Plan, a trusteed defined benefit pension plan, provides monthly benefits upon retirement at age 65 to eligible employees. In 2002, the Company's Board of Directors approved a resolution to cease all future benefit accruals under the Retirement Income Plan effective March 31, 2002. Retirement Income Plan benefits are based on the average of the employee's compensation from the Company for the five consecutive complete calendar years of highest compensation during the last ten consecutive complete calendar years ("final average compensation") immediately preceding March 31, 2002. The benefits are computed as the product of 1.5 percent of final average compensation multiplied by years of credited service (up to 30 years) reduced by an adjustment for benefits drawn from social security. Adjustments have been made for age and IRS mandated compensation limitations. The final average compensation for Mr. Hubbell is $205,890, Mr. Palmer is $179,900 and Ms. Graham is $127,325.

The annual benefit payable at the later of retirement age or 65 for the named executive officers is $261,600 for Mr. Rollins, $41,400 for Mr. Hubbell, $24,900 for Ms. Graham and $9,400 for Mr. Palmer. In accordance with the Internal Revenue Code (as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001), the maximum annual benefit payable to a Retirement Income Plan beneficiary in 2008 was $185,000. Retirement benefits accrued at the end of any calendar year or as of March 31, 2002 will not be reduced or increased by any subsequent changes in the maximum compensation limit.

The Plan also provides reduced early retirement benefits at age 55 or older with 15 or more years of service. Mr. Hubbell is eligible for early retirement benefits and the amounts payable to him in such an event is calculated using the computation described above reduced by a certain percentage for each incremental month of early retirement. Ms. Graham is voluntarily receiving distributions from the plan even though she has not retired from the Company. In addition, as an owner with stock ownership in excess of five percent of the Company's voting securities, Mr. Rollins is required to receive mandatory distributions currently, even though he has not retired from the Company. The amount of distribution received during 2008 has been disclosed in the table above and is not subject to change after retirement.

In 2002, the Company began providing additional benefits on behalf of certain long-service employees in the form of discretionary cash contributions made either to the Company's 401(k) Plan (which is described below) or the SRP as described in the section below titled "Nonqualified Deferred Compensation." Amounts contributed by the Company to the accounts of the executive officers are reported in the "All Other Compensation" column of the Summary Compensation Table on page 18.

401(k) Plan

Effective July 1, 1984, the Company adopted a qualified retirement plan designed to meet the requirements of Section 401(k) of the Code. The Company makes matching contributions of fifty cents ($0.50) for each dollar ($1.00) of a participant's contribution to the 401(k) Plan that does not exceed six percent of his or her annual compensation. The only form of benefit payment under the 401(k) Plan is a single lump-sum payment equal to the vested balance in the participant's account on the date the distribution is processed. Under the 401(k) Plan, the full amount of a participant's vested accrued benefit is payable upon his termination of employment, retirement, total and permanent disability, or death. Also under the 401(k) Plan, a participant may withdraw his or her pre-tax contributions to the extent of certain specified instances of financial hardship and may withdraw any amount from his or her pre-tax contribution account for any reason after attaining age 59 1/2. In addition, a participant may withdraw any amount from his or her rollover account for any reason. Amounts contributed by the Company to the accounts of the named executive officers under this plan are reported in the "All Other Compensation" column of the Summary Compensation Table on page 18.

NONQUALIFIED DEFERRED COMPENSATION

The SRP has been established as a nonqualified plan that is designed to comply with the provisions of the American Jobs Creation Act of 2004 (including Section 409A of the Internal Revenue Code) for the cash contributions made to certain longer serviced employees in lieu of freezing of benefit accruals effective in 2002; the SRP also has a compensation deferral option for eligible employees. The contributions and deferrals to the SRP are invested in funds held in a rabbi trust.

Name	Executive Contributions in last FY ($) (1)	Registrant contributions in last FY ($) (2)	Aggregate earnings in last FY ($)	Aggregate withdrawals/ distributions ($)	Aggregate balance at last FYE ($)
Richard A. Hubbell	—	25,880	(52,250)	—	166,180
Ben M. Palmer	41,150	—	(43,140)	—	129,860
R. Randall Rollins	—	—	—	—	—
Linda H. Graham	90,000	—	(98,470)	—	286,380

(1) Includes the following amounts related to the base salary for 2008 which have been deferred by the executive officer pursuant to the SRP and which are included in the Summary Compensation Table: Mr. Ben M. Palmer: $20,000 and Ms. Linda H. Graham: $41,250. The remaining amounts represent deferrals of bonus compensation related to 2007 that were paid in 2008.

(2) Reflects the amounts for each of the named executive officers which are reported as compensation to such named executive officer in the "All Other Compensation" column of the Summary Compensation Table on page 18.

The deferral option provides that participants may defer up to 50 percent of their base salary and up to 100 percent of their annual bonus with respect to any given plan year, subject to a $2,000 per plan year minimum. The deferred amounts are voluntarily funded on a monthly basis; salary and bonus deferrals are generally 100 percent vested. Accounts are credited with hypothetical earnings, and/or debited with hypothetical losses, based on the performance of certain "Measurement Funds." Account values are calculated as if the funds from deferrals and contributions had been converted into shares or other ownership units of selected Measurement Funds by purchasing (or selling, where relevant) such shares or units at the current purchase price of the relevant Measurement Fund at the time of the participant's selection. The benefits are unsecured general obligations of the Company to the participants, and these obligations rank in parity with the Company's other unsecured and unsubordinated indebtedness. To the extent that the Company's obligations under the SRP exceed assets available under the trust, the Company would be required to seek additional funding sources to fund its liability under the SRP.

Generally, the SRP provides for distributions of any deferred amounts upon the earliest to occur of a participant's death, disability, retirement or other termination of employment (a "Termination Event"). However, for any deferrals of base salary and bonus compensation (but not Company contributions), participants would be entitled to designate a distribution date which is prior to a Termination Event. The SRP allows a participant to elect to receive distributions in installments or lump-sum payments.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

The following table describes the potential payments and benefits under the Company's compensation and benefit plans and arrangements to which the named executive officers would be entitled upon termination of employment. There are no other agreements, arrangements or plans that entitle executive officers to severance, perquisites, or other enhanced benefits upon termination of their employment except as described below. Additional payments or benefits to a terminating executive officer would be at the discretion of the Compensation Committee. The executive officers are not entitled to additional benefits at death or disability per the terms of the defined benefit plan. The amounts payable at retirement are disclosed in the "Benefit Plans" section on page 22. The executive officers can choose to receive the amounts accumulated in the SRP either as a lump-sum or in installments at retirement, death or disability. These amounts have been disclosed under the "Nonqualified Deferred Compensation" section on page 23. The table below shows the incremental restricted shares that would become vested as of December 31, 2008 at the closing market price of $9.76 per share for our Common Stock, as of that date in the case of retirement, death or disability.

		Stock Awards	
Name		Number of shares underlying unvested stock (#)	Unrealized value of unvested stock ($)
Richard A. Hubbell			
	Retirement	—	—
	Disability	108,180	1,055,840
	Death	108,180	1,055,840
Ben M. Palmer			
	Retirement	—	—
	Disability	88,392	862,710
	Death	88,392	862,710
R. Randall Rollins			
	Retirement	45,111	440,280
	Disability	45,111	440,280
	Death	45,111	440,280
Linda H. Graham			
	Retirement	17,137	167,260
	Disability	17,137	167,260
	Death	17,137	167,260

Accrued Pay and Regular Retirement Benefits

The amounts shown in the table above do not include the following since they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment. These include:

Accrued salary and vacation pay.

Distributions of plan balances under the 401(k) Plan.

The value of option continuation upon termination, as described below. When an employee terminates prior to retirement, his or her stock options are terminated immediately, except that the options may be exercised for a period after termination (not to exceed the original option termination date) in the following circumstances:

Permanent Disability – one year after termination

Death – six months after the date of death

Normal or Early Retirement – one day less than three months after retirement

The termination of employment for any reason shall not accelerate the vesting of options.

Pension Benefit and Deferred Compensation

The Retirement Income Plan does not provide for lump sum payments for a participant including executive officers for instances other than retirement. The Retirement Income Plan is described at “Pension Benefits” above. Upon termination, the executive officers will receive a distribution of the balance in their SRP account. These amounts are disclosed under the “Nonqualified Deferred Compensation” section on page 23.

Change in Control or Severance

The Company does not have any change in control or severance arrangements for its executive officers. However, amounts may be paid at the discretion of the Compensation Committee.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Effective with the spin-off in 2001, the Company began providing certain administrative services to Marine Products. The service agreements between Marine Products and the Company provide for the provision of services on a cost reimbursement basis and may be terminated upon six months notice. The services covered by these agreements include administration of certain employee benefit programs and other administrative services. Charges from the Company (or from corporations which are subsidiaries of the Company) for such services aggregated approximately $842,000 in 2008.

During 2008, a subsidiary of RPC conducted business with companies owned by LOR, Inc. Mr. R. Randall Rollins, Chairman, and Mr. Gary W. Rollins, Director, are officers, directors and controlling stockholders of LOR, Inc. In 2008, payments totaling approximately $393,000 were made to these LOR, Inc. companies for the purchase of parts and repair services related to certain of RPC’s oilfield operating equipment. RPC believes the charges incurred by its subsidiary are at least as favorable as the charges that would have been incurred for similar services from unaffiliated third parties.

RPC receives certain administrative services including an allocation for office space from Rollins. The service agreements between Rollins 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 aggregated approximately $90,000 in 2008.

A group that includes the Company’s Chairman of the Board, R. Randall Rollins, his brother Gary W. Rollins who is also a director, and certain companies under their control, possesses in excess of fifty percent of the Company’s voting power. Please refer to the discussion above under the heading, “Corporate Governance and Board of Directors Committees and Meetings, Director Independence and NYSE Requirements, Controlled Company Exemption.” The group discussed above also controls in excess of fifty percent of Marine Products’ voting power.

Our Code of Business Conduct and Ethics for Directors and Executive Officers and Related Party Transactions Policy provides that related party transactions, as defined in Regulation S-K, Item 404(a) must be reviewed, approved and/or ratified by our Nominating and Corporate Governance Committee. As set forth in our Code, our Nominating and Corporate Governance Committee has the responsibility to ensure that it only approve or ratify related party transactions that are in compliance with applicable law, consistent with the Company’s corporate governance policies (including those relative to conflicts of interest and usurpation of corporate opportunities) and on terms that are deemed to be fair to the Company. The Committee has the authority to hire legal, accounting, financial or other advisors as it may deem necessary or desirable and/or to delegate responsibilities to executive officers of the Company in connection with discharging its duties. A copy of the Code is available on our website at www.rpc.net under the

Governance section. All related party transactions for the fiscal year ended December 31, 2008 were reviewed, approved and/or ratified by the Nominating and Corporate Governance Committee in accordance with the Code.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Principal Auditor

Grant Thornton LLP ("Grant Thornton") served as the Company's independent registered public accountants for the fiscal years ended December 31, 2008 and 2007. In addition to performing the audit of the Company's consolidated financial statements, Grant Thornton provided various other services during 2008 and 2007.

The Audit Committee has appointed Grant Thornton as the Company's independent registered public accountants for the fiscal year ending December 31, 2009. Representatives of Grant Thornton are expected to be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

The aggregate fees billed by the Company's independent registered public accountants are set forth below:

	2008	2007
Audit fees and quarterly reviews (1)	$ 932,440	$ 893,690
Audit related fees	—	—
Tax fees (2)	11,025	—
All other fees	—	—

(1) Audit fees include fees for audit or review services in accordance with generally accepted auditing standards, such as statutory audits and services rendered for compliance with Section 404 of the Sarbanes-Oxley Act.

(2) Tax fees related to advice on international issues.

Pre-approval of Services

All of the services described above were pre-approved by the Company's Audit Committee. The Audit Committee has determined that the payments made to its independent registered public accountants for these services are compatible with maintaining such auditors' independence. All of the hours expended on the principal accountant's engagement to audit the financial statements of the Company for the year 2008 was attributable to work performed by full-time, permanent employees of the principal accountant.

The Audit Committee is directly responsible for the appointment and termination, compensation, and oversight of the work of the independent registered public accountants, including resolution of disagreements between management and the independent registered public accountants regarding financial reporting. The Audit Committee is responsible for pre-approving all audit and non-audit services provided by the independent registered public accountants and ensuring that they are not engaged to perform the specific non-audit services proscribed by law or regulation. The Audit Committee has delegated pre-approval authority to its Chairman with the stipulation that his decision is to be presented to the full Committee at its next scheduled meeting. The Audit Committee has no other pre-approval policies.

STOCKHOLDER PROPOSALS

Appropriate proposals of stockholders intended to be presented at the Company's 2010 Annual Meeting of the Stockholders must be received by the Company by November 20, 2009, in order to be included, pursuant to Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended, in the Proxy Statement and form of proxy relating to that meeting. In accordance with Rule 14a-4(c)(1) of the Securities Exchange Act of 1934, management proxy holders intend to use their discretionary voting authority with respect to any stockholder proposal raised at the Company's 2010 Annual Meeting as to which the proponent fails to notify the Company on or before February 3, 2010. With regard to such stockholder proposals, if the date of the next Annual Meeting of the Stockholders is advanced or delayed more than 30 calendar days from April 28, 2010, the Company will, in a timely manner, inform its stockholders of the change and of the date by which such proposals must be received.

With respect to stockholder nomination of directors, the Company's Bylaws provide that nominations for the election of directors may be made by any stockholder entitled to vote for the election of directors. Nominations must comply with an advance notice procedure which generally requires with respect to nominations for directors for election at an Annual Meeting, that written notice be addressed to: Secretary, RPC, Inc., 2170 Piedmont Road NE, Atlanta, Georgia 30324, not less than ninety days prior to the anniversary of the prior year's Annual Meeting and set forth the name, age, business address and, if known, residence address of the nominee proposed in the notice, the principal occupation or employment of the nominee for the past five years, the nominee's qualifications, the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by the person and any other information relating to the person that would be required to be disclosed in a proxy statement or other filings. Other specific requirements related to such notice, including required disclosures concerning the stockholder intending to present the nomination, are set forth in the Company's Bylaws. Notices of nominations must be received by the Secretary of the Company no later than January 28, 2010 and no earlier than December 20, 2009 with respect to directors to be elected at the 2010 Annual Meeting of Stockholders.

EXPENSES OF SOLICITATION

The Company will bear the cost of soliciting proxies. Upon request, we will reimburse brokers, dealers and banks, or their nominees, for reasonable expenses incurred in forwarding copies of the proxy material to their beneficial shareholders of record. Solicitation of proxies will be made principally by mail. Proxies also may be solicited in person or by telephone, facsimile or other means by our directors, officers and regular employees. These individuals will receive no additional compensation for these services. The Company has retained Georgeson Shareholder Communications, Inc. to conduct a broker search and to send proxies by mail for an estimated fee of approximately $7,500 plus shipping expenses.

MISCELLANEOUS

The Company's Annual Report to Stockholders, including its Annual Report on Form 10-K for the fiscal year ended December 31, 2008, without exhibits, is being mailed to stockholders with this Proxy Statement.

Upon the written request of any record or beneficial owner of the Company's Common Stock whose proxy was solicited in connection with the 2009 Annual Meeting of Stockholders, the Company will furnish such owner, without charge, a copy of its Annual Report on Form 10-K, including the financial statements and the financial statement schedules (but without exhibits), for its fiscal year ended December 31, 2008. Requests for a copy of such Annual Report on Form 10-K should be addressed to Ms. Linda H. Graham, Secretary, at RPC, Inc., 2170 Piedmont Road NE, Atlanta, Georgia 30324.

Management knows of no business other than the matters set forth herein which will be presented at the Annual Meeting. In as much as matters not known at this time may come before the Annual Meeting, the enclosed proxy confers discretionary authority with respect to such matters as may properly come before the Annual Meeting; and it is the intention of the persons named in the proxy to vote in accordance with their best judgment on such matters.

BY ORDER OF THE BOARD OF DIRECTORS

Linda H. Graham,
Secretary

Atlanta, Georgia
March 20, 2009

RPC, Inc.
Proxy Solicited by the Board of Directors of RPC, Inc.
For Annual Meeting of Stockholders on Tuesday, April 28, 2009, 12:15 P.M.

The undersigned hereby constitutes and appoints GARY W. ROLLINS and R. RANDALL ROLLINS, and each of them, jointly and severally, proxies, with full power of substitution, to vote all shares of Common Stock which the undersigned is entitled to vote at the Annual Meeting of Stockholders to be held on April 28, 2009, at 12:15 P.M. at 2170 Piedmont Road, NE, Atlanta, Georgia, or any adjournment thereof.

The undersigned acknowledges receipt of Notice of Annual Meeting of Stockholders and Proxy Statement, each dated March 20, 2009, grants authority to said proxies, or either of them, or their substitutes, to act in the absence of others, with all the powers which the undersigned would possess if personally present at such meeting and hereby ratifies and confirms all that said proxies or their substitutes may lawfully do in the undersigned's name, place and stead. The undersigned instructs said proxies, or either of them, to vote as follows:

1. o FOR RICHARD A. HUBBELL, LINDA H. GRAHAM, BiLL J. DISMUKE, AND LARRY L. PRINCE, AS CLASS II DIRECTORS EXCEPT AS INDICATED BELOW

o WITHHOLD AUTHORITY FROM VOTING FOR THE ELECTION OF ALL CLASS II NOMINEES

INSTRUCTIONS: To withhold authority from voting for any individual nominee, write that nominee's name in the space provided below:

2. IN THE DESCRETION OF THE PROXIES ON ALL OTHER MATTERS WHICH MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT THEREOF.

(Over)

RPC, INC.

ALL PROXIES SIGNED AND RETURNED WILL BE VOTED OR NOT VOTED IN ACCORDANCE WITH YOUR INSTRUCTIONS, BUT THOSE WITH NO CHOICE INDICATED WILL BE VOTED "FOR" THE ABOVE-NAMED NOMINEES FOR DIRECTOR. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY.

PROXY
Please sign below, date and return promptly.

Signature

Dated: , 2009
(Signature should conform to name and title stenciled hereon. Executors, administrators, trustees, guardians and attorneys should add their title upon signing.)

NO POSTAGE REQUIRED IF THIS PROXY IS RETURNED IN THE ENCLOSED ENVELOPE AND MAILED IN THE UNITED STATES.