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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Quarterly Period Ended September 30, 2014
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 Number 1-7573

PARKER DRILLING COMPANY
(Exact name of registrant as specified in its charter)

Delaware	**73-0618660**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5 Greenway Plaza, Suite 100, Houston, Texas	**77046**
(Address of principal executive offices)	**(Zip code)**

(281) 406-2000
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	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 ☒

As of November 4, 2014 there were 122,022,093 common shares outstanding.

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PART I. ***FINANCIAL INFORMATION***

ITEM 1. FINANCIAL STATEMENTS

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Thousands)

	September 30, 2014	December 31, 2013
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78,311	$ 148,689
Accounts and Notes Receivable, net of allowance for bad debts of $10,470 in 2014 and $12,853 in 2013	264,803	257,889
Rig materials and supplies	45,774	41,781
Deferred costs	6,857	13,682
Deferred income taxes	8,015	9,940
Other tax assets	18,122	24,079
Other current assets	23,484	23,223
Total current assets	445,366	519,283
Property, plant and equipment less accumulated depreciation and amortization of $1,208,221 at September 30, 2014 and $1,136,024 at December 31, 2013	912,853	871,356
Debt issuance costs	12,876	14,208
Deferred income taxes	126,100	102,420
Other noncurrent assets	23,818	27,489
Total assets	$ 1,521,013	$ 1,534,756
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 10,000	$ 25,000
Accounts payable and accrued liabilities	160,711	174,886
Accrued income taxes	11,753	7,266
Total current liabilities	182,464	207,152
Long-term debt	607,500	628,781
Other long-term liabilities	17,907	26,914
Long-term deferred tax liability	54,540	38,767
Contingencies (Note 10)	—	—
Stockholders' equity:		
Common stock	20,316	20,075
Capital in excess of par value	665,805	657,349
Accumulated deficit	(31,918)	(47,616)
Accumulated other comprehensive income	766	1,888
Total controlling interest stockholders' equity	654,969	631,696
Noncontrolling interest	3,633	1,446
Total equity	658,602	633,142
Total liabilities and stockholders' equity	$ 1,521,013	$ 1,534,756

See accompanying notes to the unaudited consolidated condensed financial statements.

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Revenues	$ 242,012	$ 237,762	$ 725,471	$ 630,851
Expenses:				
Operating expenses	160,797	153,147	501,391	413,294
Depreciation and amortization	36,149	35,882	106,666	97,674
	196,946	189,029	608,057	510,968
Total operating gross margin	45,066	48,733	117,414	119,883
General and administration expense	(9,370)	(14,238)	(25,341)	(49,286)
Gain (loss) on disposition of assets, net	(457)	1,094	433	2,759
Total operating income	35,239	35,589	92,506	73,356
Other income and (expense):				
Interest expense	(10,848)	(13,127)	(33,486)	(33,874)
Interest income	36	130	156	2,392
Loss on extinguishment of debt	—	(5,218)	(30,152)	(5,218)
Change in fair value of derivative positions	—	—	—	54
Other	(536)	(144)	1,391	(805)
Total other expense	(11,348)	(18,359)	(62,091)	(37,451)
Income before income taxes	23,891	17,230	30,415	35,905
Income tax expense	11,014	9,112	14,093	18,841
Net income	12,877	8,118	16,322	17,064
Less: Net income attributable to noncontrolling interest	311	148	624	221
Net income attributable to controlling interest	$ 12,566	$ 7,970	$ 15,698	$ 16,843
Basic earnings per share	$ 0.10	$ 0.07	$ 0.13	$ 0.14
Diluted earnings per share	$ 0.10	$ 0.07	$ 0.13	$ 0.14
Number of common shares used in computing earnings per share:				
Basic	121,523,674	119,990,196	120,994,728	119,443,260
Diluted	123,177,753	121,674,591	122,972,014	121,693,781

See accompanying notes to the unaudited consolidated condensed financial statements.

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Comprehensive income:				
Net income (loss)	12,877	8,118	16,322	17,064
Other comprehensive income (loss), net of tax:				
Currency translation difference on related borrowings	(1,780)	(577)	(2,248)	(1,542)
Currency translation difference on foreign currency net investments	615	2,098	1,126	2,499
Total other comprehensive income (loss), net of tax:	(1,165)	1,521	(1,122)	957
Comprehensive income	11,712	9,639	15,200	18,021
Comprehensive (income) attributable to noncontrolling interest	(289)	(53)	(523)	(83)
Comprehensive income attributable to controlling interest	$ 11,423	$ 9,586	$ 14,677	$ 17,938

See accompanying notes to the unaudited consolidated condensed financial statements.

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2014	**2013**
Cash flows from operating activities:		
Net income	$ 16,322	$ 17,064
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	106,666	97,674
Loss on extinguishment of debt	30,152	5,218
Gain on disposition of assets	(433)	(2,759)
Deferred income tax benefit	73	12,872
Expenses not requiring cash	10,141	9,928
Change in accounts receivable	(5,188)	(28,605)
Change in other assets	7,554	(1,346)
Change in accrued income taxes	(10,397)	2,877
Change in liabilities	(10,539)	12,412
Net cash provided by operating activities	144,351	125,335
Cash flows from investing activities:		
Capital expenditures	(151,109)	(102,856)
Proceeds from the sale of assets	2,294	5,533
Acquisition of ITS, net of cash acquired	—	(117,991)
Net cash (used in) investing activities	(148,815)	(215,314)
Cash flows from financing activities:		
Proceeds from issuance of debt	400,000	350,000
Repayments of long term debt	(425,000)	(125,000)
Repayments of term loan	(7,500)	(50,000)
Payments of debt issuance costs	(7,630)	(10,981)
Payments of debt extinguishment costs	(26,214)	—
Excess tax benefit from stock based compensation	430	531
Net cash provided by (used in) financing activities	(65,914)	164,550
Net increase (decrease) in cash and cash equivalents	(70,378)	74,571
Cash and cash equivalents, beginning of year	148,689	87,886
Cash and cash equivalents, end of period	$ 78,311	$ 162,457
Supplemental cash flow information:		
Interest paid	$ 41,558	$ 22,845
Income taxes paid	$ 15,787	$ 11,238

See accompanying notes to the unaudited consolidated condensed financial statements.

PARKER DRILLING COMPANY AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 - General

In the opinion of the management of Parker Drilling Company (Parker Drilling or the Company), the accompanying unaudited consolidated condensed financial statements reflect all adjustments normally recurring which we believe are necessary for a fair presentation of: (1) Parker Drilling's financial position as of September 30, 2014 and December 31, 2013, (2) Parker Drilling's results of operations for the three and nine month periods ended September 30, 2014 and 2013, (3) Parker Drilling's consolidated condensed statement of comprehensive income for the three and nine month periods ended September 30, 2014 and 2013, and (4) Parker Drilling's cash flows for the nine month periods ended September 30, 2014 and 2013. Results for the nine month period ended September 30, 2014 are not necessarily indicative of the results that will be realized for the year ending December 31, 2014. The financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013.

Nature of Operations — Parker Drilling, together with its subsidiaries, is an international provider of contract drilling and drilling-related services and rental tools. We have operated in over 50 countries since beginning operations in 1934, making us among the most geographically experienced drilling contractors and rental tools providers in the world. We currently have operations in 24 countries. We own and operate drilling rigs and drilling-related equipment and also perform drilling-related services, referred to as operations and maintenance (O&M) services, for customer-owned drilling rigs on a contracted basis. We have extensive experience and expertise in drilling geologically difficult wells and in managing the logistical and technological challenges of operating in remote, harsh and ecologically sensitive areas. Our rental tools business supplies premium equipment to operators on land and offshore in the United States (U.S.) and select international markets. We have significant knowledge of the equipment needs of drilling operators and the logistical and product quality requirements of an effective global rental tools supplier. We believe we are industry leaders in quality, health, safety and environmental practices.

Our business is currently comprised of five operating segments: Rental Tools, U.S. Barge Drilling, U.S. Drilling, International Drilling, and Technical Services. Our rental tools business provides premium rental tools and services for land and offshore oil and natural gas drilling, workover and production applications. Tools we provide include drill collars, standard and heavy-weight drill pipe, tubing, standard and high-torque connections, pressure control equipment including blow-out preventers, and equipment for fishing services. In addition, we also provide services including fishing, tubular running, inspection and machine shop. Our U.S. barge drilling business operates barge rigs that drill for oil and natural gas in the shallow waters in and along the inland waterways and coasts of Louisiana, Alabama, and Texas. Our U.S. drilling business primarily consists of two new-design arctic-class drilling rigs in Alaska designed to address the challenges presented by the remote location, harsh climate and sensitive environment that characterize the Alaskan North Slope. Additionally, the U.S. drilling business provides O&M work in support of a customer's offshore platform operations located in the Channel Islands region of California. Our international drilling business includes operations related to Parker-owned and customer-owned rigs. We provide O&M and other project management services, such as labor, maintenance, and logistics for operators who own their own drilling rigs, but choose Parker Drilling to operate the rigs for them. Our Technical Services business includes engineering and related project services during concept development, pre-FEED (Front End Engineering Design) and FEED phases of customer-owned drilling facility projects. During the engineering, procurement, construction, installation and commissioning phases of these projects, we provide project management and procurement services focusing primarily on drilling equipment and drilling systems.

In May of 2014 we acquired a 1500 horsepower posted barge rig for our Gulf of Mexico drilling fleet for a purchase price of $12.25 million using cash on hand. At September 30, 2014, our marketable rig fleet consisted of 14 barge drilling rigs, including the recently acquired rig, and 23 land rigs located in the United States, Latin America and the Europe, Middle East, and Asia regions.

Consolidation — The consolidated condensed financial statements include the accounts of the Company and subsidiaries in which we exercise control or have a controlling financial interest, including entities, if any, in which the Company is allocated a majority of the entity's losses or returns, regardless of ownership percentage. If a subsidiary of Parker Drilling has a 50 percent interest in an entity but Parker Drilling's interest in the subsidiary or the entity does not meet the consolidation criteria described above, then that interest is accounted for under the equity method.

Reclassifications — Certain reclassifications have been made to prior period amounts to conform to the current period presentation. These reclassifications did not materially affect our consolidated financial results.

Noncontrolling Interest — We apply accounting standards related to noncontrolling interests for ownership interests in our subsidiaries held by parties other than Parker Drilling. The entities that comprise the noncontrolling interest include ITS

Arabia Limited and International Tubular Services - Egypt SAE. We report noncontrolling interest as equity on the consolidated balance sheets and report net income (loss) attributable to controlling interest and to noncontrolling interest separately on the consolidated statements of operations.

Revenue Recognition — Contract drilling revenues and expenses, comprised of daywork drilling contracts, call-outs against master service agreements and engineering and related project service contracts, are recognized as services are performed and collection is reasonably assured. For certain contracts, we receive payments contractually designated for the mobilization of rigs and other drilling equipment. Mobilization payments received, and direct costs incurred for the mobilization, are deferred and recognized over the primary term of the related drilling contract; however, costs incurred to relocate rigs and other drilling equipment to areas in which a contract has not been secured are expensed as incurred. For contracts accounted for under the milestone method of revenue recognition, revenues are recognized on achievement of specified procurement coordination and delivery events. Reimbursements received for out-of-pocket expenses are recorded as both revenues and direct costs. For contracts that are terminated prior to the specified term, early termination payments received by us are recognized as revenues when all contractual requirements are met. Revenues from rental activities are recognized ratably over the rental term which is generally less than six months.

Reimbursable Costs — The Company recognizes reimbursements received for out-of-pocket expenses incurred as revenues and accounts for out-of-pocket expenses as direct operating costs. Such amounts totaled $19.3 million and $16.2 million during the third quarters of 2014 and 2013, respectively and $57.5 million and $46.5 million for the nine months ended September 30, 2014, and 2013, respectively. Additionally, the Company typically receives a nominal handling fee, which is recognized as earned revenues in our consolidated statement of operations.

Use of Estimates — The preparation of financial statements in accordance with accounting policies generally accepted in the United States (U.S. GAAP) requires us to make estimates and assumptions that affect our reported amounts of assets and liabilities, our disclosure of contingent assets and liabilities at the date of the financial statements, and our revenues and expenses during the periods reported. Estimates are typically used when accounting for certain significant items such as legal or contractual liability accruals, mobilization and deferred mobilization, self-insured medical/dental plans, income taxes and valuation allowance, and other items requiring the use of estimates. Estimates are based on a number of variables which may include third party valuations, historical experience, where applicable, and assumptions that we believe are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ from management estimates.

Purchase price allocation — We allocate the purchase price of an acquired business to its identifiable assets and liabilities based on estimated fair values at the transaction date. Transaction and integration costs associated with an acquisition are expensed as incurred. The excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill. We use all available information to estimate fair values, including quoted market prices, the carrying value of acquired assets, and widely accepted valuation techniques such as discounted cash flows. We typically engage third-party appraisal firms to assist in fair value determination of inventories, identifiable intangible assets, and any other significant assets or liabilities. Judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations.

Intangible Assets – Definite-lived intangible assets acquired and recorded in the acquisition of International Tubular Services Limited and certain of its affiliates (collectively, ITS) and other related assets (the ITS Acquisition) in 2013 primarily relate to trade names, customer relationships, and developed technology. Our intangibles are being amortized over a weighted average period of approximately three years. See Note 2 - Acquisition of ITS for further discussion of the ITS Acquisition and fair value estimates.

Concentrations of Credit Risk — Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables with a variety of national and international oil and gas companies. We generally do not require collateral on our trade receivables.

A t September 30, 2014 and December 31, 2013, we had deposits in domestic banks in excess of federally insured limits of approximately $44.3 million and $104.3 million, respectively. In addition, as of September 30, 2014 and December 31, 2013, we had deposits in foreign banks, which were not insured of $40.5 million and $50.1 million, respectively.

Our customer base primarily consists of major, independent, national and international oil and gas companies and integrated service providers. We depend on a limited number of significant customers. Our largest customer, Exxon Neftegas Limited (ENL), constituted approximately 20.0% of our revenues for the nine months ended September 30, 2014. Each of our segments depends on a limited number of key customers and the loss of any one or more key customers could have a material adverse effect on a segment.

Note 2 - Acquisition of ITS

On April 22, 2013 we acquired ITS for an initial purchase price of $101 million paid at the closing of the ITS Acquisition. An additional $24 million was deposited into an escrow account, which is payable to the seller or to us, as the case may be, in accordance with the ITS Acquisition agreement (the Acquisition Agreement). As of September 30, 2014, $10.5 million of the cash deposited in escrow has been released to the seller. Additionally, we received $1.25 million and $2.75 million from escrow related to the ITS Acquisition to reimburse the Company for certain post-acquisition expenditures during the three and nine months ended September 30, 2014, respectively. The reimbursements were recorded as a reduction to general and administrative expense on our consolidated condensed statement of operations.

Fair value of Consideration Transferred

The following details the fair value of the consideration transferred to effect the ITS Acquisition:

Dollars in thousands		
Cash paid to, or on behalf of, ITS and its equity holders	$	101,000
Cash deposited in escrow		19,000
Fair value of contingent consideration deposited in escrow for assets not acquired [1]		5,000
Total fair value of the consideration transferred	$	125,000

(1) Based on the terms of the Acquisition Agreement, $5 million of the $24 million in escrow to be paid to the seller was contingent upon certain future liabilities that could become due by ITS in certain jurisdictions. Any payments in relation to these liabilities would be deducted from the $5 million escrow amount and the net balance of the escrow would be paid to the seller. During the third quarter of 2014, we released $2 million to the seller, leaving $3 million remaining in escrow. We estimate that the entire $3 million remaining in escrow will be paid to the seller, and therefore, the estimated fair value of the consideration in escrow related to these liabilities is $3 million. Any changes to the fair value of the contingent consideration in the future of less than $3 million will result in recording a receivable from escrow which will be recorded at fair value. We do not expect to recover any amount from escrow related to the contingent consideration; therefore, as of September 30, 2014, the fair value of the receivable was zero.

Allocation of Consideration Transferred to Net Assets Acquired

We have finalized the determination of the fair values of the assets acquired and liabilities assumed as set forth below. The acquired assets and assumed liabilities were subject to adjustment during a one-year measurement period subsequent to the ITS Acquisition as permitted under GAAP. The estimated fair values of certain assets and liabilities, primarily receivables, intangible assets, property, plant and equipment, taxes, contingencies and noncontrolling interests required judgments and assumptions that resulted in adjustments made to these estimates during the measurement period. The measurement period adjustments were recorded to reflect new information obtained about facts and circumstances existing as of the ITS Acquisition and did not result from subsequent intervening events.

The following details the allocation of consideration transferred to net assets acquired in the ITS Acquisition:

Dollars in thousands	April 22, 2013
Cash and cash equivalents	$ 7,009
Accounts and notes receivable, net (1)	48,184
Other current assets	1,803
Accounts payable and accrued liabilities (2)	(35,156)
Accrued income taxes	(1,251)
Working capital excluding rig materials and supplies	20,589
Rig materials and supplies	11,514
Property, plant and equipment, net (3)	72,935
Investment in joint venture	4,134
Other noncurrent assets	2,818
Total tangible assets	111,990
Deferred income tax assets - current (4)	222
Deferred income tax assets - noncurrent (4)	11,640
Intangible assets (5)	8,500
Total assets acquired	132,352
Other long-term liabilities	(211)
Long-term deferred tax liability	(2,796)
Net assets acquired	129,345
Less: Noncontrolling interest (6)	(4,345)
Total consideration transferred	$ 125,000

(1) Our provisional allocation included $54.7 million of gross contractual accounts receivable. During the 2013 fourth quarter, adjustments of $1.2 million were recorded as of December 31, 2013 resulting in final fair value of gross accounts receivable of $55.9 million. These adjustments were recorded to reflect recognition of receivables for revenue earned prior to the acquisition date. Additionally, the initial allocation included $5.9 million of allowance for doubtful accounts. During the 2014 first quarter, we recorded an additional $1.9 million allowance to reserve against receivables that existed as of the acquisition date and were deemed to be uncollectible based on new information obtained during the measurement period that existed at the time of acquisition.

(2) Our provisional allocation included $39.2 million of accounts payable and accrued liabilities. During the 2013 third quarter we recorded a reclassification of $4.0 million to reclassify reserves to property, plant, and equipment. This reclassification was reflected in our December 31, 2013 consolidated balance sheet but was not included in our disclosure of the Allocation of Consideration Transferred to Net Assets Acquired as of December 31, 2013. We have corrected this as of March 31, 2014 and do not believe the reclassification is material to our previously reported disclosure.

(3) Management determined that the fair value of the net assets acquired less noncontrolling interest equaled consideration paid; therefore, no goodwill was recorded. Our provisional allocation included an adjustment of $40.2 million to reduce the historical carrying value of the acquired property, plant and equipment to its estimated fair value at the date of acquisition. The measurement period adjustments to receivables, deferred income taxes, intangibles, and noncontrolling interests directly impacted the determination of the final fair value of the acquired property, plant and equipment, resulting in measurement period adjustments totaling $2.6 million to increase the fair value of property, plant and equipment.

(4) Our provisional allocation included $14.4 million of deferred tax assets. During the measurement period, adjustments of ($2.9) million and $0.4 million were recorded as of December 31, 2013 and March 31, 2014, respectively, resulting in final fair value of deferred tax assets of $11.9 million. Adjustments to deferred income tax assets primarily related to the differences between the final acquisition date fair value and tax basis of acquired property, plant and equipment.

(5) Our provisional allocation included $10.0 million and $0.2 million to reflect the estimated fair values of definite- and indefinite-lived intangible assets, respectively, for the ITS Acquisition. During the 2013 fourth quarter we recorded adjustments of $1.5 million and $0.2 million to reduce the value of the definite- and indefinite-lived intangible assets down to $8.5 million and zero respectively. Our depreciation and amortization expense for the year ended December 31, 2013 reflects this valuation adjustment. Definite-lived intangible assets recorded in connection with the ITS Acquisition, which primarily relate to trade names, customer relationships, and developed technology are being amortized over a weighted average period of approximately 3.4 years.

(6) Our provisional allocation included noncontrolling interest of $2.7 million. The estimated fair value of the noncontrolling interest was calculated as a percentage of the net assets acquired related to certain subsidiaries in which ITS holds less than a 100 percent controlling interest. The fair value of the net assets of these subsidiaries was primarily based on the income approach valuation model. During the 2014 first quarter, we obtained new information about the acquired subsidiaries that existed at the date of acquisition which resulted in an increase in the acquisition date fair value of $1.6 million, resulting in a final fair value of the noncontrolling interest of $4.3 million.

The impacts to our December 31, 2013 consolidated balance sheet for the revisions to the provisional allocation made during the 2014 first quarter are as follows:

Dollars in Thousands		**Increase/(Decrease)**
Accounts and notes receivable, net	$	(1,859)
Total current assets		(1,859)
Property, plant and equipment		3,072
Deferred income tax assets - noncurrent		391
Total non-current assets		3,463
Total assets	$	1,604
Long-term deferred tax liabilities		(60)
Total non-current liabilities		(60)
Total liabilities	$	(60)
Noncontrolling interest	$	1,664
Total liabilities and stockholder's equity	$	1,604

The impact of the revisions to the provisional allocation recorded during the 2014 first quarter, including the impact to depreciation expense related to the increase in property, plant and equipment, are not material to our historical consolidated financial statements or disclosures.

Acquisition Related Costs

Acquisition-related transaction costs, consisting of various advisory, compliance, legal, accounting, valuation and other professional or consulting fees, were nominal for the nine month period ended September 30, 2014 and were $22.5 million for the year ended December 31, 2013. These costs were expensed as incurred and included in general and administrative expense on our consolidated condensed statement of operations. Debt issuance costs of $5.4 million associated with our $125 million term loan, fully funded by Goldman Sachs Bank USA as Sole Lead Arranger and Administrative Agent (the Goldman Term Loan) issued on April 18, 2013 were initially deferred to be amortized to interest expense over the life of the term loan. However, the Goldman Term Loan was repaid on July 30, 2013 with net proceeds from the issuance of $225.0 million aggregate principal amount of 7.50% Senior Notes due August 1, 2020, and the unamortized deferred costs of $5.2 million were expensed during the third quarter of 2013.

Note 3 - Earnings per share (EPS)

	Three Months Ended September 30, 2014		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$ 12,566,000	121,523,674	$ 0.10
Effect of dilutive securities:			
Restricted stock units	—	1,654,079	—
Diluted EPS	$ 12,566,000	123,177,753	$ 0.10

	Nine Months Ended September 30, 2014		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$ 15,698,000	120,994,728	$ 0.13
Effect of dilutive securities:			
Restricted stock units	—	1,977,286	—
Diluted EPS	$ 15,698,000	122,972,014	$ 0.13

	Three Months Ended September 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$ 7,970,000	119,990,196	$ 0.07
Effect of dilutive securities:			
Restricted stock units	—	1,684,395	—
Diluted EPS	$ 7,970,000	121,674,591	$ 0.07

	Nine Months Ended September 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$ 16,843,000	119,443,260	$ 0.14
Effect of dilutive securities:			
Restricted stock units	—	2,250,521	—
Diluted EPS	$ 16,843,000	121,693,781	$ 0.14

For the three and nine months ended September 30, 2014 and 2013 weighted-average shares outstanding used in our computation of diluted EPS includes the dilutive effect of common shares potentially issuable in connection with outstanding restricted stock unit awards.

Note 4 - Accumulated Other Comprehensive Income

Accumulated other comprehensive income consisted of the following:

Dollars in thousands	Foreign Currency Items
December 31, 2013	$ 1,888
Current period other comprehensive income (loss)	(1,122)
September 30, 2014	$ 766

Amounts reclassified out of accumulated other comprehensive income were $0.2 million for the nine months ended September 30, 2014. These amounts represent foreign currency translation losses from the sale of our equity method investment in an ITS entity acquired during 2013.

Note 5 - Reportable Segments

We report our business activities in five business segments: (1) Rental Tools, (2) U.S. Barge Drilling, (3) U.S. Drilling, (4) International Drilling, and (5) Technical Services. We eliminate inter-segment revenues and expenses.

The following table represents the results of operations by reportable segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in thousands	**2014**	**2013**	**2014**	**2013**
Revenues: (1)				
Rental Tools	$ 87,711	$ 89,614	$ 255,387	$ 228,717
U.S. Barge Drilling	39,630	33,919	110,408	102,085
U.S. Drilling	19,687	18,693	59,143	48,238
International Drilling	88,173	88,562	265,396	236,394
Technical Services	6,811	6,974	35,137	15,417
Total revenues	242,012	237,762	725,471	630,851
Operating gross margin: (2)				
Rental Tools	19,652	25,816	50,761	72,469
U.S. Barge Drilling	15,284	12,236	39,655	37,656
U.S. Drilling	1,307	103	4,072	(4,618)
International Drilling	7,810	10,425	20,395	13,858
Technical Services	1,013	153	2,531	518
Total operating gross margin	45,066	48,733	117,414	119,883
General and administrative expense	(9,370)	(14,238)	(25,341)	(49,286)
Gain (loss) on disposition of assets, net	(457)	1,094	433	2,759
Total operating income	35,239	35,589	92,506	73,356
Interest expense	(10,848)	(13,127)	(33,486)	(33,874)
Interest income	36	130	156	2,392
Loss on extinguishment of debt	—	(5,218)	(30,152)	(5,218)
Changes in fair value of derivative positions	—	—	—	54
Other	(536)	(144)	1,391	(805)
Income from continuing operations before income taxes	$ 23,891	$ 17,230	$ 30,415	$ 35,905

(1) For the nine months ended September 30, 2014, our largest customer, ENL, constituted approximately 20.0% of our total consolidated revenues and approximately 3.5% of our Rental Tools segment revenues, 43.0% of our International Drilling segment revenues, and 68.0% of our Technical Services segment revenues. For the nine months ended September 30, 2013, our largest customer, ENL, constituted approximately 14.3% of our total consolidated revenues.

(2) Operating gross margin is calculated as revenues less direct operating expenses, including depreciation and amortization expense.

Note 6 - Accounting for Uncertainty in Income Taxes

We apply the accounting guidance related to accounting for uncertainty in income taxes. This guidance prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. At September 30, 2014, we had a liability for unrecognized tax benefits of $8.2 million (which includes $3.6 million of benefits which would favorably impact our effective tax rate upon recognition), primarily related to foreign operations. As of September 30, 2013, we had a liability for unrecognized tax benefits of $10.5 million ($3.8 million of which, if recognized, would favorably impact our effective tax rate). In addition, we recognize interest and penalties that could be applied to uncertain tax positions in periodic income tax expense. As of September 30, 2014 and December 31, 2013, we had approximately $3.1 million and $7.9 million, respectively, of accrued interest and penalties related to uncertain tax positions.

During the nine months ended September 30, 2014, we paid approximately $6.1 million in settlement of notices of assessment in Kazakhstan that were previously reserved in the liability for unrecognized tax benefits. Management believes that the Company is properly reserved with respect to accounting for uncertainty in income taxes.

Note 7 - Income Tax Benefit/Expense

During the third quarter of 2014 we had an income tax expense of $11.0 million compared to $9.1 million for the third quarter of 2013. The increase in current period income tax expense is primarily due to higher pre-tax earnings and the mix of operations in the third quarter of 2014 when compared with pre-tax earnings and the mix of operations reported for the third quarter of 2013.

Note 8 - Long-Term Debt

The following table illustrates our debt portfolio as of September 30, 2014 and December 31, 2013:

Dollars in thousands	**September 30, 2014**	**December 31, 2013**
6.75% Senior Notes, due July 2022	$ 360,000	$ —
7.50% Senior Notes, due August 2020	225,000	225,000
9.125% Senior Notes, due April 2018	—	428,781
Term Note, due December 2017	32,500	—
Total debt	617,500	653,781
Less current portion	10,000	25,000
Total long-term debt	$ 607,500	$ 628,781

6.75% Senior Notes, due July 2022

On January 22, 2014, we issued $360.0 million aggregate principal amount of 6.75% Senior Notes due 2022 (6.75% Notes) pursuant to an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Net proceeds from the 6.75% Notes offering plus a $40.0 million draw under our Amended and Restated Credit Agreement (Secured Credit Agreement) and cash on hand, were utilized to redeem $416.2 million aggregate principal amount of our outstanding 9.125% Senior Notes due 2018 (9.125% Notes) pursuant to a tender and consent solicitation offer commenced on January 7, 2014. See further discussion of the tender and consent solicitation offer below entitled "*9.125% Senior Notes, due April 2018"*.

The 6.75% Notes are general unsecured obligations of the Company and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 6.75% Notes are jointly and severally guaranteed by all of our subsidiaries that guarantee indebtedness under our Secured Credit Agreement or our 7.50% Senior Notes due 2020 (7.50% Notes, and collectively with the 6.75% Notes, the Senior Notes). Interest on the 6.75% Notes is payable on January 15 and July 15 of each year, beginning July 15, 2014. Debt issuance costs related to the 6.75% Notes of approximately $7.6 million ($7.1 million net of amortization as of September 30, 2014) are being amortized over the term of the notes using the effective interest rate method.

At any time prior to January 15, 2017, we may redeem up to 35 percent of the aggregate principal amount of the 6.75% Notes at a redemption price of 106.75 percent of the principal amount, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of certain equity offerings by us. On and after January 15, 2018, we may redeem all or a part of the 6.75% Notes upon appropriate notice, at a redemption price of 103.375 percent of the principal amount, and at redemption prices decreasing each year thereafter to par beginning January 15, 2020. If we experience certain changes in control, we must offer to repurchase the 6.75% Notes at 101.0 percent of the aggregate principal amount, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

The Indenture restricts our ability and the ability of certain subsidiaries to: (i) sell assets, (ii) pay dividends or make other distributions on capital stock or redeem or repurchase capital stock or subordinated indebtedness, (iii) make investments, (iv) incur or guarantee additional indebtedness, (v) create or incur liens, (vi) enter into sale and leaseback transactions, (vii) incur dividend or other payment restrictions affecting subsidiaries, (viii) merge or consolidate with other entities, (ix) enter into transactions with affiliates, and (x) engage in certain business activities. Additionally, the Indenture contains certain restrictive covenants designating certain events as Events of Default. These covenants are subject to a number of important exceptions and qualifications.

7.50% Senior Notes, due August 2020

On July 30, 2013, we issued $225.0 million aggregate principal amount of the 7.50% Notes pursuant to an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Net proceeds from the 7.50% Notes offering were primarily used to repay the $125.0 million aggregate principal amount of the Goldman Term Loan, to repay $45.0 million of Term Loan borrowings under our Secured Credit Agreement and for general corporate purposes.

The 7.50% Notes are general unsecured obligations of the Company and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 7.50% Notes are jointly and severally guaranteed by all of our subsidiaries that guarantee indebtedness under our Secured Credit Agreement or the 6.75% Notes. Interest on the 7.50% Notes is payable on February 1 and August 1 of each year, beginning February 1, 2014. Debt issuance costs related to the 7.50% Notes of approximately $5.6 million ($4.8 million, net of amortization as of September 30, 2014) are being amortized over the term of the notes using the effective interest rate method.

At any time prior to August 1, 2016, we may redeem up to 35 percent of the aggregate principal amount of the 7.50% Notes at a redemption price of 107.50 percent of the principal amount, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of certain equity offerings by us. On and after August 1, 2016, we may redeem all or a part of the 7.50% Notes upon appropriate notice, at a redemption price of 103.750 percent of the principal amount, and at redemption prices decreasing each year thereafter to par beginning August 1, 2018. If we experience certain changes in control, we must offer to repurchase the 7.50% Notes at 101.0 percent of the aggregate principal amount, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

The Indenture restricts our ability and the ability of certain subsidiaries to: (i) sell assets, (ii) pay dividends or make other distributions on capital stock or redeem or repurchase capital stock or subordinated indebtedness, (iii) make investments, (iv) incur or guarantee additional indebtedness, (v) create or incur liens, (vi) enter into sale and leaseback transactions, (vii) incur dividend or other payment restrictions affecting subsidiaries, (viii) merge or consolidate with other entities, (ix) enter into transactions with affiliates, and (x) engage in certain business activities. Additionally, the Indenture contains certain restrictive covenants designating certain events as Events of Default. These covenants are subject to a number of important exceptions and qualifications.

9.125% Senior Notes, due April 2018

On March 22, 2010, we issued $300.0 million aggregate principal amount of 9.125% Notes pursuant to an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Net proceeds from the 9.125% Notes offering were primarily used to redeem the $225.0 million aggregate principal amount of our 9.625% Senior Notes due 2013 and to repay $42.0 million of borrowings under our senior secured revolving credit facility.

On April 25, 2012, we issued an additional $125.0 million aggregate principal amount of 9.125% Notes under the same indenture at a price of 104.0 percent of par, resulting in gross proceeds of $130.0 million. Net proceeds from the offering were utilized to refinance $125.0 million aggregate principal amount of the 2.125% Convertible Senior Notes due July 2012.

On January 7, 2014, we commenced a tender and consent solicitation with respect to the 9.125% Notes. The tender offer price was $1,061.98, inclusive of a $30.00 consent payment, for each $1,000 principal amount of 9.125% Notes, plus accrued and unpaid interest. On January 22, 2014, we paid $453.7 million for the tendered 9.125% Notes, comprised of $416.2 million of aggregate principal amount of the 9.125% Notes, $25.8 million of tender and consent premiums and $11.7 million of accrued interest. On April 1, 2014, we redeemed the remaining $8.8 million aggregate principal amount of the outstanding 9.125% Notes for a purchase price of $9.6 million, inclusive of a $0.4 million call premium and $0.4 million interest. During the nine months ended September 30, 2014, we recorded a loss on extinguishment of debt of approximately $30.2 million, which included the tender and consent premiums of $25.8 million, the call premium of $0.4 million and the write-off of unamortized debt issuance costs of $7.7 million, offset by the write-off of the remaining unamortized debt issuance premium of $3.8 million.

Amended and Restated Credit Agreement

On December 14, 2012, we entered into the Secured Credit Agreement consisting of a senior secured $80.0 million revolving facility (Revolver) and a senior secured term loan facility (Term Loan). In July 2013, the Secured Credit Agreement was amended to permit re-borrowing in the form of additional term loans, of up to $45.0 million, decreasing by $2.5 million at the end of each quarter beginning September 30, 2013 and ending March 31, 2014. In January 2014 we re-borrowed $40 million of the Term Loan pursuant to the amendment.

Our obligations under the Secured Credit Agreement are guaranteed by substantially all of our direct and indirect domestic subsidiaries other than immaterial subsidiaries and subsidiaries generating revenues primarily outside the United States, each of which has executed guaranty agreements, and are secured by first priority liens on our accounts receivable, specified barge rigs and rental equipment. The Secured Credit Agreement contains customary affirmative and negative covenants with which we were in compliance as of September 30, 2014 and December 31, 2013. The Secured Credit Agreement matures on December 14, 2017.

Revolver

Our Revolver is available for general corporate purposes and to support letters of credit. Interest on Revolver loans accrues at a Base Rate plus an Applicable Rate or LIBOR plus an Applicable Rate. Under the Secured Credit Agreement, the Applicable Rate varies from a rate per annum ranging from 2.50 percent to 3.00 percent for LIBOR rate loans and 1.50 percent to 2.00 percent for base rate loans, determined by reference to the consolidated leverage ratio (as defined in the Secured Credit Agreement). Revolving loans are available subject to a borrowing base calculation based on a percentage of eligible accounts receivable, certain specified barge drilling rigs and rental equipment of the Company and its subsidiary guarantors. There were no revolving loans outstanding at September 30, 2014 and December 31, 2013. Letters of credit outstanding against the Revolver as of September 30, 2014 and December 31, 2013 totaled $6.4 million and $4.6 million, respectively.

Term Loan

The Term Loan originated at $50.0 million on December 14, 2012 and requires quarterly principal payments of $2.5 million, which began March 31, 2013. Interest on the Term Loan accrues at a Base Rate plus 2.00 percent or LIBOR plus 3.00 percent. The outstanding balance on the Term Loan at December 31, 2013 was zero. In January 2014 we re-borrowed $40 million of the Term Loan and used the proceeds, along with the proceeds from the issuance of the 6.75% Notes, to repurchase our 9.125% Notes. As of September 30, 2014 the remaining balance on the Term Loan was $32.5 million. We are no longer able to re-borrow amounts under the Term Loan.

Note 9 - Fair Value of Financial Instruments

Certain of our assets and liabilities are required to be measured at fair value on a recurring basis. For purposes of recording fair value adjustments for certain financial and non-financial assets and liabilities, and determining fair value disclosures, we estimate fair value at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability.

The fair value measurement and disclosure requirements of FASB Accounting Standards Codification Topic No. 820, *Fair Value Measurement and Disclosures* (ASC 820) requires inputs that we categorize using a three-level hierarchy, from highest to lowest level of observable inputs, as follows:

- Level 1 — Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 — Direct or indirect observable inputs, including quoted prices or other market data, for similar assets or liabilities in active markets or identical assets or liabilities in less active markets;
- Level 3 — Unobservable inputs that require significant judgment for which there is little or no market data.

When multiple input levels are required for a valuation, we categorize the entire fair value measurement according to the lowest level of input that is significant to the entire measurement even though we may also have utilized significant inputs that are more readily observable. The amounts reported in our consolidated balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value.

Fair value of our debt instruments is determined using Level 2 inputs. Fair values and related carrying values of our debt instruments were as follows for the periods indicated:

	September 30, 2014		December 31, 2013	
Dollars in thousands	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term Debt				
6.75% Notes	$ 360,000	$ 364,500	$ —	$ —
7.50% Notes	225,000	235,688	225,000	236,250
9.125% Notes	—	—	425,000	446,250
Total	$ 585,000	$ 600,188	$ 650,000	$ 682,500

The assets acquired and liabilities assumed in the ITS Acquisition were recorded at fair value in accordance with U.S. GAAP. Acquisition date fair values represent either Level 2 fair value measurements (current assets and liabilities, property, plant and equipment) or Level 3 fair value measurements (intangible assets).

Market conditions could cause an instrument to be reclassified from Level 1 to Level 2, or Level 2 to Level 3. There were no transfers between levels of the fair value hierarchy or any changes in the valuation techniques used during the nine months ended September 30, 2014.

Note 10 - Commitments and Contingencies

Customs Agent and Foreign Corrupt Practices Act (FCPA) Settlement

On April 16, 2013, the Company and the Department of Justice (DOJ) entered into a deferred prosecution agreement (DPA), under which the DOJ will defer for three years prosecuting the Company for criminal violations of the anti-bribery provisions of the FCPA relating to the Company's retention and use of an individual agent in Nigeria with respect to certain customs-related issues, in return for: (i) the Company's acceptance of responsibility for, and agreement not to contest or contradict the truthfulness of, the statement of facts and allegations that have been filed in a United States District Court concurrently with the DPA; (ii) the Company's payment of an approximately $11.76 million fine; (iii) the Company's reaffirming its commitment to compliance with the FCPA and other applicable anti-corruption laws in connection with the Company's operations, and continuing cooperation with domestic and foreign authorities in connection with the matters that are the subject of the DPA; (iv) the Company's commitment to continue to address any identified areas for improvement in the Company's internal controls, policies and procedures relating to compliance with the FCPA and other applicable anti-corruption laws if, and to the extent, not already addressed; and (v) the Company's agreement to report to the DOJ in writing annually during the term of the DPA regarding remediation of the matters that are the subject of the DPA, implementation of any enhanced internal controls, and any evidence of improper payments the Company may have discovered during the term of the agreement. If the Company remains in compliance with the terms of the DPA throughout its effective period, the charge against the Company will be dismissed with prejudice. The Company also settled a related civil complaint filed by the SEC in a United States District Court.

Demand Letter and Derivative Litigation

In April 2010, we received a demand letter from a law firm representing Ernest Maresca. The letter states that Mr. Maresca is one of our stockholders and that he believes that certain of our current and former officers and directors violated their fiduciary duties related to the issues described above under "Customs Agent and Foreign Corrupt Practices Act (FCPA) Settlement." The letter requests that our Board of Directors take action against the individuals in question. In response to this letter, the Board formed a special committee to evaluate the issues raised by the letter and determine a course of action for the Company. The special committee engaged its own counsel for the investigation and evaluated potential claims against all individuals identified in the demand letter. The special committee considered whether pursuing each of the individuals named in the demand letter was in the best interests of the Company based upon a variety of factors, including among others, whether the Company had a potential cause of action against the individual, the defenses the individual might offer to such a claim, the ability of the individual to satisfy any judgment the Company might secure as a result of a claim asserted, and other risks to the Company of pursuing the claims. After taking various factors into account, on July 29, 2013, the special committee recommended to the Board that the Company not pursue any action against the current and former officers and directors named in the demand letter, and the Board accepted such recommendation.

On July 31, 2014, Fuchs Family Trust, a purported stockholder of the Company, filed a complaint under Section 220 of the Delaware Code seeking to inspect the Company's books and records. The action is styled *Fuchs Family Trust v. Parker Drilling Company*, Case No. 9986-VCN, and was filed in the Court of Chancery of the State of Delaware. The complaint alleges that the inspection of records is intended to investigate purported corporate wrongdoing and mismanagement related to the Company's 2013 resolutions of investigations by the U.S. Department of Justice and the Securities and Exchange Commission into certain violations of the Foreign Corrupt Practices Act by Company employees. Plaintiff seeks to compel the records inspection and requests costs, expenses, and attorneys' fees in the event inspection is permitted. We do not believe a liability is probable and estimable at this time.

ITS Pre-Acquisition Internal Controls

Our due diligence process with respect to the ITS Acquisition identified certain transactions that suggest that ITS' pre-acquisition internal controls may have failed to prevent violations of potentially applicable international trade and anti-corruption laws, including those of the United Kingdom. We have investigated such violations and have and will, as appropriate, make any identified violations known to relevant authorities, cooperate with any resulting investigations and take proper remediation measures (including seeking any necessary government authorizations). While it is possible that matters may arise where a contingency may require further accounting considerations, we believe that any resolution will not have a material impact on our consolidated financial statements.

Note 11 - Recent Accounting Pronouncements

On May 28, 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. We are in the process of assessing the impact of the adoption of ASU 2014-09 on our financial position, results of operations and cash flows. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss (NOL) carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when: (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. This accounting guidance is effective for our first quarter in fiscal 2014 and does not have a material impact on our condensed consolidated financial statements.

Note 12 - Parent, Guarantor, Non-Guarantor Unaudited Consolidating Condensed Financial Statements

Set forth on the following pages are the consolidating condensed financial statements of Parker Drilling. The Company's Secured Credit Agreement and Senior Notes are fully and unconditionally guaranteed by substantially all of our direct and indirect domestic subsidiaries other than immaterial subsidiaries and subsidiaries generating revenues primarily outside the United States, subject to the following customary release provisions:

- in connection with any sale or other disposition of all or substantially all of the assets of that guarantor (including by way of merger or consolidation) to a person that is not (either before or after giving effect to such transaction) a subsidiary of the Company;
- in connection with any sale of such amount of capital stock as would result in such guarantor no longer being a subsidiary to a person that is not (either before or after giving effect to such transaction) a subsidiary of the Company;
- if the Company designates any restricted subsidiary that is a guarantor as an unrestricted subsidiary;
- if the guarantee by a guarantor of all other indebtedness of the Company or any other guarantor is released, terminated or discharged, except by, or as a result of, payment under such guarantee; or
- upon legal defeasance or covenant defeasance (satisfaction and discharge of the indenture).

There are currently no restrictions on the ability of the restricted subsidiaries to transfer funds to Parker Drilling in the form of cash dividends, loans or advances. Parker Drilling is a holding company with no operations, other than through its subsidiaries. Separate financial statements for each guarantor company are not provided as the Company complies with the exception to Rule 3-10(a)(1) of Regulation S-X, set forth in sub-paragraph (f) of such rule. All guarantor subsidiaries are owned 100 percent by the parent company.

We are providing unaudited consolidating condensed financial information of the parent, Parker Drilling, the guarantor subsidiaries, and the non-guarantor subsidiaries as of September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013. The consolidating condensed financial statements present investments in both consolidated and unconsolidated subsidiaries using the equity method of accounting.

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED BALANCE SHEET
(Dollars in Thousands)
(Unaudited)

	September 30, 2014				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 23,577	$ 12,515	$ 42,219	$ —	$ 78,311
Accounts and notes receivable, net	(1)	108,637	156,167	—	264,803
Rig materials and supplies	—	727	45,047	—	45,774
Deferred costs	—	—	6,857	—	6,857
Deferred income taxes	—	6,843	1,172	—	8,015
Other tax assets	55,782	(56,829)	19,169	—	18,122
Other current assets	—	11,754	11,730	—	23,484
Total current assets	79,358	83,647	282,361	—	445,366
Property, plant and equipment, net	(19)	599,251	313,621	—	912,853
Investment in subsidiaries and intercompany advances	2,822,265	1,232,241	2,273,328	(6,327,834)	—
Other noncurrent assets	(482,689)	533,446	233,349	(121,312)	162,794
Total assets	$ 2,418,915	$ 2,448,585	$ 3,102,659	$ (6,449,146)	$ 1,521,013
LIABILITIES AND STOCKHOLDERS’ EQUITY					
Current liabilities:					
Current portion of long-term debt	$ 10,000	$ —	$ —	$ —	$ 10,000
Accounts payable and accrued liabilities	67,053	83,258	268,575	(258,175)	160,711
Accrued income taxes	(5,548)	11,327	5,974	—	11,753
Total current liabilities	71,505	94,585	274,549	(258,175)	182,464
Long-term debt	607,500	—	—	—	607,500
Other long-term liabilities	2,866	6,636	8,405	—	17,907
Long-term deferred tax liability	(29)	60,314	(5,745)	—	54,540
Intercompany payables	1,082,870	1,017,037	999,057	(3,098,964)	—
Total liabilities	1,764,712	1,178,572	1,276,266	(3,357,139)	862,411
Total equity	654,203	1,270,013	1,826,393	(3,092,007)	658,602
Total liabilities and stockholders’ equity	$ 2,418,915	$ 2,448,585	$ 3,102,659	$ (6,449,146)	$ 1,521,013

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED BALANCE SHEET
(Dollars in Thousands)
(Unaudited)

	December 31, 2013				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 88,697	$ 8,310	$ 51,682	$ —	$ 148,689
Accounts and notes receivable, net	—	101,299	156,590	—	257,889
Rig materials and supplies	—	3,002	38,779	—	41,781
Deferred costs	—	—	13,682	—	13,682
Deferred income taxes	(57)	8,435	1,562	—	9,940
Other tax assets	54,524	(46,770)	16,325	—	24,079
Other current assets	—	9,089	14,134	—	23,223
Total current assets	143,164	83,365	292,754	—	519,283
Property, plant and equipment, net	60	562,148	309,148	—	871,356
Investment in subsidiaries and intercompany advances	1,906,128	(336,570)	1,667,937	(3,237,495)	—
Other noncurrent assets	(457,954)	468,864	250,983	(117,776)	144,117
Total assets	$ 1,591,398	$ 777,807	$ 2,520,822	$ (3,355,271)	$ 1,534,756
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term debt	$ 25,000	$ —	$ —	$ —	$ 25,000
Accounts payable and accrued liabilities	75,268	92,546	261,436	(254,364)	174,886
Accrued income taxes	—	725	6,541	—	7,266
Total current liabilities	100,268	93,271	267,977	(254,364)	207,152
Long-term debt	628,781	—	—	—	628,781
Other long-term liabilities	5,037	6,743	15,134	—	26,914
Long-term deferred tax liability	—	51,747	(12,980)	—	38,767
Intercompany payables	227,504	291,783	422,645	(941,932)	—
Total liabilities	961,590	443,544	692,776	(1,196,296)	901,614
Total equity	629,808	334,263	1,828,046	(2,158,975)	633,142
Total liabilities and stockholders' equity	$ 1,591,398	$ 777,807	$ 2,520,822	$ (3,355,271)	$ 1,534,756

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

	Three months ended September 30, 2014				
	Parent	**Guarantor**	**Non-Guarantor**	**Eliminations**	**Consolidated**
Total revenues	—	$ 129,935	$ 156,495	$ (44,418)	$ 242,012
Operating expenses	—	65,369	139,846	(44,418)	160,797
Depreciation and amortization	—	22,168	13,981	—	36,149
Total operating gross margin	—	42,398	2,668	—	45,066
General and administration expense (1)	110	(8,988)	(492)	—	(9,370)
Gain (loss) on disposition of assets, net	—	91	(548)	—	(457)
Total operating income	110	33,501	1,628	—	35,239
Other income and (expense):					
Interest expense	(11,529)	(35)	(1,943)	2,659	(10,848)
Interest income	98	176	2,421	(2,659)	36
Other	—	675	(1,211)	—	(536)
Equity in net earnings of subsidiaries	19,442	—	—	(19,442)	—
Total other income (expense)	8,011	816	(733)	(19,442)	(11,348)
Income (benefit) before income taxes	8,121	34,317	895	(19,442)	23,891
Total income tax expense (benefit)	(4,445)	14,337	1,122	—	11,014
Net income (loss)	12,566	19,980	(227)	(19,442)	12,877
Less: Net income attributable to noncontrolling interest	—	—	311	—	311
Net income (loss) attributable to controlling interest	$ 12,566	$ 19,980	$ (538)	$ (19,442)	$ 12,566

(1) General and administration expenses for field operations are included in operating expenses.

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

	Three Months Ended September 30, 2013				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
Total revenues	$ —	$ 119,223	$ 170,609	$ (52,070)	$ 237,762
Operating expenses	—	64,297	140,920	(52,070)	153,147
Depreciation and amortization	—	19,956	15,926	—	35,882
Total operating gross margin	—	34,970	13,763	—	48,733
General and administration expense (1)	(47)	(14,103)	(88)	—	(14,238)
Gain (loss) on disposition of assets, net	—	(34)	1,128	—	1,094
Total operating income (loss)	(47)	20,833	14,803	—	35,589
Other income and (expense):					
Interest expense	(14,035)	(107)	(2,198)	3,213	(13,127)
Interest income	360	250	2,733	(3,213)	130
Loss on extinguishment of debt	(5,218)	—	—	—	(5,218)
Other	(1)	64	(207)	—	(144)
Equity in net earnings of subsidiaries	22,322	—	—	(22,322)	—
Total other income (expense)	3,428	207	328	(22,322)	(18,359)
Income (loss) before income taxes	3,381	21,040	15,131	(22,322)	17,230
Income tax expense (benefit)	(4,589)	10,223	3,478	—	9,112
Net income (loss)	7,970	10,817	11,653	(22,322)	8,118
Less: Net income attributable to noncontrolling interest	—	—	148	—	148
Net income (loss) attributable to controlling interest	$ 7,970	$ 10,817	$ 11,505	$ (22,322)	$ 7,970

(1) General and administration expenses for field operations are included in operating expenses.

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30, 2014				
	Parent	**Guarantor**	**Non-Guarantor**	**Eliminations**	**Consolidated**
Total revenues	$ —	396,536	461,460	(132,525)	$ 725,471
Operating expenses	—	222,846	411,070	(132,525)	501,391
Depreciation and amortization	—	63,343	43,323	—	106,666
Total operating gross margin	—	110,347	7,067	—	117,414
General and administration expense (1)	(195)	(23,806)	(1,340)	—	(25,341)
Gain (loss) on disposition of assets, net	(79)	522	(10)	—	433
Total operating income (loss)	(274)	87,063	5,717	—	92,506
Other income and (expense):					
Interest expense	(35,542)	(120)	(6,356)	8,532	(33,486)
Interest income	632	553	7,503	(8,532)	156
Loss on extinguishment of debt	(30,152)	—	—	—	(30,152)
Other	—	860	531	—	1,391
Equity in net earnings of subsidiaries	50,591	—	—	(50,591)	—
Total other income (expense)	(14,471)	1,293	1,678	(50,591)	(62,091)
Income (loss) before income taxes	(14,745)	88,356	7,395	(50,591)	30,415
Total Income tax expense (benefit)	(30,443)	34,187	10,349	—	14,093
Net income (loss)	15,698	54,169	(2,954)	(50,591)	16,322
Less: Net income attributable to noncontrolling interest	—	—	624	—	624
Net income (loss) attributable to controlling interest	$ 15,698	$ 54,169	$ (3,578)	$ (50,591)	$ 15,698

(1) General and administration expenses for field operations are included in operating expenses.

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30, 2013				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
Total revenues	$ —	$ 345,367	$ 388,912	$ (103,428)	$ 630,851
Operating expenses	—	186,708	330,014	(103,428)	413,294
Depreciation and amortization	—	57,335	40,339	—	97,674
Total operating gross margin	—	101,324	18,559	—	119,883
General and administration expense (1)	(140)	(48,861)	(285)	—	(49,286)
Gain on disposition of assets, net	—	1,917	842	—	2,759
Total operating income (loss)	(140)	54,380	19,116	—	73,356
Other income and (expense):					
Interest expense	(36,734)	(167)	(9,494)	12,521	(33,874)
Interest income	3,366	1,584	9,963	(12,521)	2,392
Loss on extinguishment of debt	(5,218)	—	—	—	(5,218)
Changes in fair value of derivative positions	54	—	—	—	54
Other	—	(192)	(613)	—	(805)
Equity in net earnings of subsidiaries	36,330	—	—	(36,330)	—
Total other income (expense)	(2,202)	1,225	(144)	(36,330)	(37,451)
Income (loss) before income taxes	(2,342)	55,605	18,972	(36,330)	35,905
Income tax expense (benefit)	(19,185)	27,993	10,033	—	18,841
Net income (loss)	16,843	27,612	8,939	(36,330)	17,064
Less: Net income attributable to noncontrolling interest	—	—	221	—	221
Net income (loss) attributable to controlling interest	$ 16,843	$ 27,612	$ 8,718	$ (36,330)	$ 16,843

(1) General and administration expenses for field operations are included in operating expenses.

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

	Three Months Ended September 30, 2014				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
Comprehensive income:					
Net income (loss)	$ 12,566	$ 19,980	$ (227)	$ (19,442)	$ 12,877
Other comprehensive income (loss), net of tax:					
Currency translation difference on related borrowings	—	—	(1,780)	—	(1,780)
Currency translation difference on foreign currency net investments	—	—	615	—	615
Total other comprehensive income (loss), net of tax:	—	—	(1,165)	—	(1,165)
Comprehensive income (loss)	12,566	19,980	(1,392)	(19,442)	11,712
Comprehensive (income) attributable to noncontrolling interest	—	—	(289)	—	(289)
Comprehensive income (loss) attributable to controlling interest	$ 12,566	$ 19,980	$ (1,681)	$ (19,442)	$ 11,423

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

	Three Months Ended September 30, 2013				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
Comprehensive income:					
Net income (loss)	$ 7,970	$ 10,817	$ 11,653	$ (22,322)	$ 8,118
Other comprehensive income (loss), net of tax:					
Currency translation difference on related borrowings	—	—	(577)	—	(577)
Currency translation difference on foreign currency net investments	—	—	2,098	—	$ 2,098
Total other comprehensive income (loss), net of tax:	—	—	1,521	—	1,521
Comprehensive income (loss)	7,970	10,817	13,174	(22,322)	9,639
Comprehensive (income) attributable to noncontrolling interest	—	—	(53)	—	(53)
Comprehensive income (loss) attributable to controlling interest	$ 7,970	$ 10,817	$ 13,121	$ (22,322)	$ 9,586

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30, 2014				
	Parent	**Guarantor**	**Non-Guarantor**	**Eliminations**	**Consolidated**
Comprehensive income:					
Net income (loss)	$ 15,698	$ 54,169	$ (2,954)	$ (50,591)	$ 16,322
Other comprehensive income (loss), net of tax:					
Currency translation difference on related borrowings	—	—	(2,248)	—	(2,248)
Currency translation difference on foreign currency net investments	—	—	1,126	—	1,126
Total other comprehensive income (loss), net of tax:	—	—	(1,122)	—	(1,122)
Comprehensive income	15,698	54,169	(4,076)	(50,591)	15,200
Comprehensive (income) attributable to noncontrolling interest	—	—	(523)	—	(523)
Comprehensive income attributable to controlling interest	$ 15,698	$ 54,169	$ (4,599)	$ (50,591)	$ 14,677

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30, 2013				
	Parent	**Guarantor**	**Non-Guarantor**	**Eliminations**	**Consolidated**
Comprehensive income:					
Net income (loss)	$ 16,843	$ 27,612	$ 8,939	$ (36,330)	$ 17,064
Other comprehensive income (loss), net of tax:					
Currency translation difference on related borrowings	—	—	(1,542)	—	(1,542)
Currency translation difference on foreign currency net investments	—	—	2,499	—	2,499
Total other comprehensive income (loss), net of tax:	—	—	957	—	957
Comprehensive income	16,843	27,612	9,896	(36,330)	18,021
Comprehensive (income) attributable to noncontrolling interest	—	—	(83)	—	(83)
Comprehensive income attributable to controlling interest	$ 16,843	$ 27,612	$ 9,813	$ (36,330)	$ 17,938

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30, 2014				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ 15,698	$ 54,169	$ (2,954)	$ (50,591)	$ 16,322
Adjustments to reconcile net income (loss):					
Depreciation and amortization	—	63,343	43,323	—	106,666
Loss on extinguishment of debt	30,152	—	—	—	30,152
Gain on disposition of assets	79	(522)	10	—	(433)
Deferred income tax expense	(15,774)	12,525	3,322	—	73
Expenses not requiring cash	9,940	(1,538)	1,739	—	10,141
Equity in net earnings of subsidiaries	(50,591)	—	—	50,591	—
Change in accounts receivable	—	(1,715)	(3,473)	—	(5,188)
Change in other assets	43,412	(58,441)	22,583	—	7,554
Change in accrued income taxes	(13,232)	11,764	(8,929)	—	(10,397)
Change in liabilities	(8,213)	(9,395)	7,069	—	(10,539)
Net cash provided by operating activities	11,471	70,190	62,690	—	144,351
Cash flows from investing activities:					
Capital expenditures	—	(107,137)	(43,972)	—	(151,109)
Proceeds from the sale of assets	—	1,088	1,206	—	2,294
Acquisition of ITS, net of cash acquired	—	—	—	—	—
Net cash (used in) investing activities	—	(106,049)	(42,766)	—	(148,815)
Cash flows from financing activities:					
Proceeds from debt issuance	400,000	—	—	—	400,000
Repayments of long term debt	(425,000)	—	—	—	(425,000)
Paydown on term note	(7,500)	—	—	—	(7,500)
Payment of debt issuance costs	(7,630)	—	—	—	(7,630)
Payment of debt extinguishment costs	(26,214)	—	—	—	(26,214)
Excess tax benefit from stock-based compensation	430	—	—	—	430
Intercompany advances, net	(10,677)	40,064	(29,387)	—	—
Net cash provided by (used in) financing activities	(76,591)	40,064	(29,387)	—	(65,914)
Net change in cash and cash equivalents	(65,120)	4,205	(9,463)	—	(70,378)
Cash and cash equivalents at beginning of year	88,697	8,310	51,682	—	148,689
Cash and cash equivalents at end of year	$ 23,577	$ 12,515	$ 42,219	$ —	$ 78,311

PARKER DRILLING COMPANY AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30, 2013				
	Parent	Guarantor	Non-Guarantor	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ 16,843	$ 27,612	$ 8,939	$ (36,330)	$ 17,064
Adjustments to reconcile net income (loss)					
Depreciation and amortization	—	57,335	40,339	—	97,674
Loss on extinguishment of debt	5,218	—	—	—	5,218
Gain on disposition of assets	—	(1,917)	(842)	—	(2,759)
Deferred income tax expense	(2,860)	10,479	5,253	—	12,872
Expenses not requiring cash	10,494	591	(1,157)	—	9,928
Equity in net earnings of subsidiaries	(36,330)	—	—	36,330	—
Change in accounts receivable	(899)	(7,951)	(19,755)	—	(28,605)
Change in other assets	3,045	4,580	(8,971)	—	(1,346)
Change in accrued income taxes	358	(85)	2,604	—	2,877
Change in liabilities	14,222	(2,116)	306	—	12,412
Net cash provided by operating activities	10,091	88,528	26,716	—	125,335
Cash flows from investing activities:					
Capital expenditures	—	(66,956)	(35,900)	—	(102,856)
Proceeds from the sale of assets	—	2,751	2,782	—	5,533
Acquisition of ITS, net of cash acquired	—	(292)	(117,699)	—	(117,991)
Net cash (used in) investing activities	—	(64,497)	(150,817)	—	(215,314)
Cash flows from financing activities:					
Proceeds from debt issuance	350,000	—	—	—	350,000
Repayments of long term debt	(125,000)	—	—	—	(125,000)
Paydown on term note	(50,000)	—	—	—	(50,000)
Payment of debt issuance costs	(10,981)	—	—	—	(10,981)
Payment of debt extinguishment costs	—	—	—	—	—
Excess tax benefit from stock-based compensation	531	—	—	—	531
Intercompany advances, net	(127,376)	(13,781)	141,157	—	—
Net cash provided by (used in) financing activities	37,174	(13,781)	141,157	—	164,550
Net change in cash and cash equivalents	47,265	10,250	17,056	—	74,571
Cash and cash equivalents at beginning of year	42,251	11,023	34,612	—	87,886
Cash and cash equivalents at end of year	$ 89,516	$ 21,273	$ 51,668	$ —	$ 162,457

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

DISCLOSURE NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q contains statements that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). All statements contained in this Form 10-Q, other than statements of historical facts, are forward-looking statements for purposes of these provisions, including any statements regarding:

- stability of prices and demand for oil and natural gas;
- levels of oil and natural gas exploration and production activities;
- demand for contract drilling and drilling-related services and demand for rental tools and related services;
- our future operating results and profitability;
- our future rig utilization, dayrates and rental tools activity;
- entering into new, or extending existing, drilling or rental contracts and our expectations concerning when operations will commence under such contracts;
- entry into new markets or potential exit from existing markets;
- growth through acquisitions of companies or assets, including the ITS Acquisition;
- organic growth of our operations;
- construction or upgrades of rigs and expectations regarding when these rigs will commence operations;
- capital expenditures for acquisition of rental tools, rigs, construction of new rigs or major upgrades to existing rigs;
- entering into joint venture agreements;
- our future liquidity;
- the sale or potential sale of assets or references to assets held for sale;
- availability and sources of funds to refinance our debt and expectations of when debt will be reduced;
- the outcome of pending or future legal proceedings, investigations, tax assessments and other claims;
- the availability of insurance coverage for pending or future claims;
- the enforceability of contractual indemnification in relation to pending or future claims; and
- compliance with covenants under our debt agreements.

In some cases, you can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “outlook,” “may,” “should,” “will” and “would” or similar words. Forward-looking statements are based on certain assumptions and analyses we make in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are relevant. Although we believe our assumptions are reasonable based on information currently available, those assumptions are subject to significant risks and uncertainties, many of which are outside of our control. The following factors, as well as those factors set forth in Item 1A, “Risk Factors”, in our Annual Report on Form 10-K for the year ended December 31, 2013 and our other public filings with the Securities and Exchange Commission, and any other cautionary language included in this Form 10-Q, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements:

- worldwide economic and business conditions that adversely affect market conditions and/or the cost of doing business including potential currency devaluations or collapses;
- our inability to access the credit or bond markets;
- U.S. credit market volatility resulting from the U.S. national debt and potential further downgrades of the U.S. credit rating;
- the U.S. economy and the demand for natural gas;

- low U.S. natural gas prices that could adversely affect our U.S. drilling, barge rig and U.S. rental tools businesses;
- worldwide demand for oil;
- fluctuations in the market prices of oil and natural gas, including the inability or unwillingness of our customers to fund drilling programs in low price cycles;

- imposition of trade restrictions, including additional economic sanctions and export/re export controls affecting our business operations in Russia;
- unanticipated operating hazards and uninsured risks;
- political instability, terrorism or war;
- governmental regulations, including changes in accounting rules or tax laws that adversely affect the cost of doing business or our ability to remit funds to the U.S.;
- changes in the tax laws that would allow double taxation on foreign sourced income;
- the outcome of investigations into possible violations of laws;
- adverse environmental events;
- adverse weather conditions;
- global health concerns;
- changes in the concentration of customer and supplier relationships;
- ability of our customers and suppliers to obtain financing for their operations;
- ability of our customers to fund drilling plans;
- unexpected cost increases for new construction and upgrade and refurbishment projects;
- delays in obtaining components for capital projects and in ongoing operational maintenance and equipment certifications;
- shortages of skilled labor;
- unanticipated cancellation of contracts by customers or operators;
- breakdown of equipment;
- other operational problems including delays in start-up or commissioning of rigs;
- changes in competition;
- any failure to realize expected benefits from acquisitions;
- the effect of litigation and contingencies; and
- other similar factors, some of which are discussed in our Annual Report on Form 10-K, elsewhere in this Form 10-Q and in our other reports and filings with the SEC.

Each forward-looking statement speaks only as of the date of this Form 10-Q, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law. You should be aware that the occurrence of the events described in these risk factors and elsewhere in this Form 10-Q could have a material adverse effect on our business, results of operations, financial condition and cash flows.

OVERVIEW AND OUTLOOK

Overview

Our financial results for the 2014 third quarter, compared with those of the 2013 third quarter, reflect primarily increased revenues and earnings from our drilling operations offset by reduced revenues and earnings from our rental tools business.

Our drilling activities, overall, produced higher revenues and earnings, primarily from gains in our U.S. operations. Our U.S. barge drilling operations achieved higher realized average dayrates and benefited further from the additions of Rigs 55B and 30B in the 2014 second and third quarters, respectively. An increase in realized average dayrates and operating efficiencies achieved by our Alaska rigs made a further contribution. This was partially offset by a lower realized average dayrate for our international drilling operations and the temporary costs of earlier rig deployments that brought our international rig fleet utilization up to current levels.

Our rental tools business recorded a decline in revenues and earnings. We achieved increased revenues and earnings from our U.S. rental tools business, despite competitive pricing conditions, primarily due to higher rental tools equipment utilization. For our international rental tools business, market and operating disruptions reduced the contribution to revenues and earnings.

Outlook

We believe the recent decline in the price of crude oil is beginning to influence drilling activity in U.S. markets. This could lead to lower than previously expected fourth quarter revenues and earnings from our U.S. operations. However, our international businesses operate in markets where drilling activity is less volatile. As a result, our near-term expectations for our international businesses are largely unchanged.

As current market concerns resolve themselves, we expect the long-term needs of the industry to generate growth in demand for the services we provide. We believe this will produce opportunities to further grow our businesses, enhance our operating performance and deliver strong financial results.

RESULTS OF OPERATIONS

We analyze the financial results for each of our five business segments. The business segments presented are consistent with our reportable segments discussed in Note 5 to our condensed consolidated financial statements.

We monitor our business segments based on several criteria, including operating gross margin. Operating gross margin excluding depreciation and amortization is computed as revenues less direct operating expenses, and excludes depreciation and amortization expense, where applicable; operating gross margin percentages are computed as operating gross margin as a percent of revenues. The operating gross margin amounts and operating gross margin percentages should not be used as a substitute for those amounts reported under U.S. GAAP. Management believes this information is useful to our investors as it more accurately reflects the cash flow from operations generated by each segment.

Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013

Revenues of $242.0 million for the three months ended September 30, 2014 increased $4.3 million, or 1.8 percent, compared with $237.8 million for the three months ended September 30, 2013. Operating gross margin decreased $3.7 million or 7.5 percent, to $45.1 million, for the three months ended September 30, 2014 compared with $48.7 million for the three months ended September 30, 2013. During the three months ended September 30, 2014, we recorded net income attributable to controlling interest of $12.6 million compared with net income attributable to controlling interest of $8.0 million for the three months ended September 30, 2013.

The following is an analysis of our operating results for the comparable quarters:

	Three Months Ended September 30,			
Dollars in Thousands	2014		2013	
Revenues:				
Rental Tools	$ 87,711	37%	$ 89,614	38%
U.S. Barge Drilling	39,630	16%	33,919	14%
U.S. Drilling	19,687	8%	18,693	8%
International Drilling	88,173	36%	88,562	37%
Technical Services	6,811	3%	6,974	3%
Total revenues	242,012	100%	237,762	100%
Operating gross margin excluding depreciation and amortization:				
Rental Tools gross margin	35,724	41%	40,875	46%
U.S Barge Drilling gross margin	20,691	52%	15,807	47%
U.S. Drilling gross margin	5,292	27%	3,907	21%
International Drilling gross margin	18,460	21%	23,842	27%
Technical Services gross margin	1,048	15%	184	3%
Total operating gross margin excluding depreciation and amortization	81,215	34%	84,615	36%
Depreciation and amortization	(36,149)		(35,882)	
Total operating gross margin	45,066		48,733	
General and administrative expense	(9,370)		(14,238)	
Gain (loss) on disposition of assets, net	(457)		1,094	
Total operating income	$ 35,239		$ 35,589	

Operating gross margin amounts are reconciled to our most comparable U.S. GAAP measure as follows:

Dollars in Thousands	Rental Tools	U.S. Barge Drilling	U.S. Drilling	International Drilling	Technical Services
Three Months Ended September 30, 2014					
Segment operating gross margin (1)	$ 19,652	$ 15,284	$ 1,307	$ 7,810	$ 1,013
Depreciation and amortization	16,072	5,407	3,985	10,650	35
Operating gross margin excluding depreciation and amortization	$ 35,724	$ 20,691	$ 5,292	$ 18,460	$ 1,048
Three Months Ended September 30, 2013					
Segment operating gross margin (1)	$ 25,816	$ 12,236	$ 103	$ 10,425	$ 153
Depreciation and amortization	15,059	3,571	3,804	13,417	31
Operating gross margin excluding depreciation and amortization	$ 40,875	$ 15,807	$ 3,907	$ 23,842	$ 184

(1) Segment operating gross margin is calculated as revenues less direct operating expenses, including depreciation and amortization expense.

Operations

Rental Tools

Our Rental Tools segment includes both U.S. and international operations. Historically we have discussed the results of this segment by reference to our U.S. Rental Tools business, represented by our Quail Tools brand, and our international rental tools business, represented by our ITS brand. As we have integrated the ITS business into our Rental Tools segment, in the current and future reporting periods we will discuss this segment on a geographic basis, U.S. and international. In the geographic discussion both our Quail Tools and ITS brands are represented in the U.S. and international operations.

Rental Tools segment revenues decreased $1.9 million, or 2.1%, to $87.7 million for the third quarter of 2014 compared with $89.6 million for the third quarter of 2013. The decrease was primarily driven by an $8.0 million decrease in our international revenues primarily due to a decline in utilization. This decrease in revenues was partially offset by a $6.1 million increase in our U.S. rental tools revenues primarily driven by higher utilization in the U.S. land drilling market.

Rental Tools segment operating gross margin excluding depreciation and amortization decreased $5.2 million, or 12.6%, to $35.7 million in the third quarter of 2014 compared with the $40.9 million for the third quarter of 2013. The decline was primarily due to lower utilization as discussed above.

U.S. Barge Drilling

U.S. Barge Drilling segment revenues increased $5.7 million, or 16.8%, to $39.6 million for the third quarter of 2014 compared with $33.9 million for the third quarter of 2013. The increase in revenues was due to higher average dayrates for the U.S. barge rig fleet, including benefits from the addition to our operating fleet of Rigs 55B and 30B in the second and third quarters of 2014. The increase was partially offset by lower utilization primarily due to a decline in market opportunities.

U.S. Barge Drilling segment's operating gross margin excluding depreciation and amortization increased $4.9 million, or 30.9%, to $20.7 million for the third quarter of 2014 compared with $15.8 million for the third quarter of 2013. The increase was primarily driven by the increase in average dayrates described above.

U.S. Drilling

U.S. Drilling segment revenues increased $1.0 million, or 5.3% to $19.7 million for the third quarter of 2014 compared with $18.7 million for the third quarter of 2013. The increase in revenues was due to additional personnel in our Alaska operations, which resulted in an increase in the average dayrate.

U.S. Drilling segment operating gross margin excluding depreciation and amortization increased $1.4 million, or 35.4%, to $5.3 million for the third quarter of 2014 compared with $3.9 million for the third quarter of 2013, primarily driven by the increase in average dayrate described above.

International Drilling

International Drilling segment revenues decreased $0.4 million, or 0.4%, to $88.2 million for the third quarter of 2014, compared with $88.6 million for the third quarter of 2013. The lower revenues were attributable to a decrease in drilling revenues from the operation of Parker-owned rigs, partially offset by an increase in revenues from O&M contracts.

Revenues related to Parker-owned rigs decreased $3.7 million, or 6.1%, to $56.3 million for the third quarter of 2014 compared with $60.0 million for the third quarter of 2013. This decrease in revenues was driven by a decline in our utilization in our Latin America region as well as a decline in our Sakhalin Island operations related to mobilization revenue in the third quarter of 2013 that did not recur in the third quarter of 2014. This decline in revenues was partially offset by an increase in dayrate in our Sakhalin Island operations as well as an increase in our rig fleet utilization in the Kurdistan Region of Iraq resulting from a full quarter of revenues for the third quarter of 2014 for rigs which were previously idle during the third quarter of 2013.

O&M revenues increased $3.3 million, or 11.5%, to $31.8 million for the third quarter of 2014 compared with $28.5 million for the third quarter of 2013, driven by increased dayrates from our Sakhalin Island operations during the third quarter of 2014, partially offset by the completion of the Coral Sea project in May 2014. Approximately $11.5 million and $8.1 million of O&M revenues were attributable to reimbursable costs for the three month periods ended September 30, 2014 and 2013, respectively, which increased revenues, but had minimal impact on operating margins.

International Drilling operating gross margin excluding depreciation and amortization decreased $5.4 million, or 22.6%, to $18.5 million for the third quarter of 2014 compared with $23.8 million for the third quarter of 2013. The decrease was primarily due to the declines in utilization in our Latin America region as well as the impact of higher operating costs associated with rig redeployments to the Kurdistan Region of Iraq. The decline was partially offset by an increase in operating gross margin excluding depreciation and amortization related to increased revenues from our Sakhalin Island O&M operations described above.

Technical Services

Technical Services segment revenues decreased $0.2 million to $6.8 million for the third quarter of 2014 compared with $7.0 million for the third quarter of 2013. The decrease is primarily due to the winding down and near completion of the vendor services phase of the Berkut platform project in the third quarter of 2014. This decline is partially offset by an increase in revenues related to a FEED project that is ramping up in the third quarter of 2014.

Technical Services operating gross margin excluding depreciation and amortization increased $0.9 million to $1.0 million for the third quarter of 2014 compared with $0.2 million for the third quarter of 2013. The increase is primarily the result of the FEED project described above.

Other Financial Data

General and administration expense decreased $4.9 million to $9.4 million for the third quarter of 2014 compared with $14.2 million for the third quarter of 2013. The decrease is primarily the result of $4.8 million of costs incurred in the 2013 third quarter related to the ITS Acquisition that did not recur in the third quarter of 2014. General and administrative expense in the third quarter of 2014 also benefited from a $1.25 million reimbursement received from an escrow account during the third quarter of 2014 related to the ITS Acquisition to reimburse the Company for certain post-acquisition expenditures.

Net losses recognized on asset dispositions were $0.5 million during the third quarter of 2014 compared with $1.1 million of net gains during the third quarter of 2013. Activity in both periods was primarily the result of asset sales. We periodically sell equipment deemed to be excess, obsolete, or not currently required for operations.

Interest expense decreased $2.3 million to $10.8 million for the third quarter of 2014 compared with $13.1 million for the third quarter of 2013. This decrease was primarily related to a decrease in debt-related interest expense resulting from lower interest rates and a lower total debt balance on our outstanding debt. Interest income during the 2014 and 2013 third quarters was nominal.

There were no debt extinguishment costs incurred in the three months ended September 30, 2014, compared with a loss on extinguishment of debt of $5.2 million during the three months ended September 30, 2013. The loss on extinguishment of debt for 2013 related to the write-off of debt issuance costs resulting from the repayment of the $125 million Goldman Term Loan during July 2013.

We had $0.5 million of other expense for the third quarter of 2014 compared with $0.1 million of other expense for the third quarter of 2013. Other expense for the third quarter of 2014 is primarily driven by losses related to foreign currency fluctuations in our Sakhalin Island operations, largely offset by a settlement of claims against a vendor.

During the third quarter of 2014 we had an income tax expense of $11.0 million compared to $9.1 million for the third quarter of 2013. The increase in current period income tax expense is primarily due to higher pre-tax earnings and the mix of operations in the third quarter of 2014 when compared with pre-tax earnings and the mix of operations reported for the third quarter of 2013.

Nine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013

Revenues increased $94.6 million, or 15.0%, to $725.5 million for the nine months ended September 30, 2014, compared with revenues of $630.9 million for the comparable 2013 period. Operating gross margin decreased $2.5 million, or 2.1%, to $117.4 million for the nine months ended September 30, 2014, compared with operating gross margin of $119.9 million for the comparable 2013 period. We recorded net income attributable to controlling interest of $15.7 million for the nine months ended September 30, 2014, as compared with $16.8 million for the nine months ended September 30, 2013.

The following is an analysis of our operating results for the comparable periods:

	Nine months ended September 30,			
Dollars in Thousands	2014		2013	
Revenues:				
Rental Tools	$ 255,387	35%	$ 228,717	36%
U.S. Barge Drilling	110,408	15%	102,085	16%
U.S. Drilling	59,143	8%	48,238	8%
International Drilling	265,396	37%	236,394	38%
Technical Services	35,137	5%	15,417	2%
Total revenues	725,471	100%	630,851	100%
Operating gross margin excluding depreciation and amortization:				
Rental Tools gross margin	97,802	38%	111,428	49%
U.S Barge Drilling gross margin	54,054	49%	48,240	47%
U.S. Drilling gross margin	15,849	27%	7,874	16%
International Drilling gross margin	53,660	20%	49,414	21%
Technical Services gross margin	2,715	8%	601	4%
Total operating gross margin excluding depreciation and amortization	224,080	31%	217,557	35%
Depreciation and amortization	(106,666)		(97,674)	
Total operating gross margin	117,414		119,883	
General and administrative expense	(25,341)		(49,286)	
Gain on disposition of assets, net	433		2,759	
Total operating income	$ 92,506		$ 73,356	

Operating gross margin amounts are reconciled to our most comparable U.S. GAAP measure as follows:

Dollars in Thousands	Rental Tools	U.S. Barge Drilling	U.S. Drilling	International Drilling	Technical Services
Nine Months Ended September 30, 2014					
Operating gross margin (1)	$ 50,761	$ 39,655	$ 4,072	$ 20,395	$ 2,531
Depreciation and amortization	47,041	14,399	11,777	33,265	184
Operating gross margin excluding depreciation and amortization	$ 97,802	$ 54,054	$ 15,849	$ 53,660	$ 2,715
Nine Months Ended September 30, 2013					
Operating gross margin (1)	$ 72,469	$ 37,656	$ (4,618)	$ 13,858	$ 518
Depreciation and amortization	38,959	10,584	12,492	35,556	83
Operating gross margin excluding depreciation and amortization	$ 111,428	$ 48,240	$ 7,874	$ 49,414	$ 601

(1) Operating gross margin is calculated as revenues less direct operating expenses, including depreciation and amortization expense.

Operations

Rental Tools

Our Rental Tools segment includes both U.S. and international operations. Historically we have discussed the results of this segment by reference to our U.S. Rental Tools business, which principally was representative of our Quail Tools brand, and ITS, our international rental tools business. As we have integrated the ITS business into our Rental Tools segment, in the current and future reporting periods we will discuss this segment on a U.S. versus international basis. In the geographic discussion both our Quail Tools and ITS brands are represented in the U.S. and international operations.

Rental Tools segment revenues increased $26.7 million, or 11.7%, to $255.4 million during the nine months ended September 30, 2014 compared with $228.7 million for the nine months ended September 30, 2013. The increase was due to a $23.7 million increase in our international revenues and a $3.0 million increase in our U.S. revenues. The increase in international revenues was primarily due to the ITS Acquisition, which contributed an increase of $24.1 million of revenues in the nine months ended September 30, 2014. The increase in U.S. rental tools revenues was due to increased activity in the offshore Gulf of Mexico market, partially offset by decreased activity in the U.S. land drilling market.

Rental Tools segment operating gross margin excluding depreciation and amortization, decreased $13.6 million, or 12.2%, to $97.8 million during the nine months ended September 30, 2014, compared with $111.4 million for the nine months ended September 30, 2013. The decline is attributable to both our international and U.S. operations. In the U.S., the increase in competitive conditions described above led to lower product pricing for rental tools and related activities. Internationally, we experienced lower utilization, increased costs related to ongoing closure costs, and an increase in the allowance for doubtful accounts.

U.S. Barge Drilling

U.S. Barge Drilling segment revenues increased $8.3 million, or 8.2%, to $110.4 million for the nine months ended September 30, 2014, compared with $102.1 million for the nine months ended September 30, 2013. The increase in revenues was primarily due to higher average dayrates for the U.S. barge rig fleet, including benefits from the addition to our operating fleet of Rigs 55B and 30B in the second and third quarters, respectively, of 2014. The increase was partially offset by lower utilization primarily due to a decline in market opportunities.

U.S. Barge Drilling segment operating gross margin excluding depreciation and amortization increased $5.8 million, or 12.1%, to $54.1 million for the nine months ended September 30, 2014, compared with $48.2 million for the nine months ended September 30, 2013, primarily driven by the increase in average dayrates for the U.S barge rig fleet as described above.

U.S. Drilling

U.S. Drilling segment revenues increased $10.9 million, or 22.6%, to $59.1 million for the nine months ended September 30, 2014, compared with $48.2 million for the nine months ended September 30, 2013. The increase in revenues is the result of a full nine months of operations in 2014 of our two arctic-class drilling rigs in Alaska, compared with 2013, in which one rig was not operational until February 2013. Additionally, the O&M contract supporting three platform operations located offshore California generated higher reimbursable revenues and was operating for the full nine months ended September 30, 2014, compared with 2013, in which this contract commenced in February 2013.

U.S. Drilling segment operating gross margin excluding depreciation and amortization increased $8.0 million, or 101.3%, to $15.8 million for the nine months ended September 30, 2014, compared with $7.9 million for the nine months ended September 30, 2013, primarily due to both arctic-class rigs being fully operational as described above. Additionally, we collected a previously reserved receivable allowing us to reverse the reserve during the first quarter of 2014.

International Drilling

International Drilling segment revenues increased $29.0 million, or 12.3%, to $265.4 million for the nine months ended September 30, 2014 compared with $236.4 million for the nine months ended September 30, 2013.

Revenues related to Parker-owned rigs increased $23.6 million, or 16.5%, to $166.5 million for the nine months ended September 30, 2014 compared with $142.9 million for the nine months ended September 30, 2013, primarily due to an increase in utilization in our Sakhalin Island operations and an increase in our utilization in the Kurdistan Region of Iraq where we successfully deployed two previously idle rigs, partially offset by reduced revenues due to a decline in rig fleet utilization in our Latin America region.

O&M revenues increased $5.4 million, or 5.8%, to $98.9 million for the nine months ended September 30, 2014, compared with $93.5 million for the nine months ended September 30, 2013. The increase in revenues from our O&M contracts was primarily due to increased activity and higher dayrates associated with our Sakhalin Island O&M operations, partially offset by the completion of the Coral Sea project in May 2014. Of the total O&M revenues, approximately $33.0 million and $31.5 million were attributable to reimbursable costs for the nine months ended September 30, 2014 and 2013, respectively, which added to revenues but had minimal impact on margins.

International Drilling operating gross margin excluding depreciation and amortization increased $4.2 million, or 8.6%, to $53.7 million during the nine months ended September 30, 2014, compared with $49.4 million for the nine months ended September 30, 2013. The increase was primarily due to higher dayrates associated with our Sakhalin Island O&M operations, partially offset by the impact of net mobilization costs associated with the redeployment of two Parker-owned rigs from Kazakhstan to the Kurdistan Region of Iraq and their high initial operating costs.

Technical Services

Technical Services segment revenues increased $19.7 million, or 127.9%, to $35.1 million for the nine months ended September 30, 2014, compared with $15.4 million for the nine months ended September 30, 2013. The increase is primarily due to a new FEED contract entered into during the fourth quarter of 2013 and increased activity under the vendor services phase of the Berkut platform project.

Operating gross margin excluding depreciation and amortization for this segment increased $2.1 million, or 351.7% to $2.7 million for the nine months ended September 30, 2014, compared with $0.6 million for the nine months ended September 30, 2013. The increase is primarily the result of the FEED project described above.

Other Financial Data

General and administration expense decreased $23.9 million to $25.3 million for the nine months ended September 30, 2014 compared with $49.3 million for the nine months ended September 30, 2013. This decrease is primarily due to approximately $19.2 million of costs incurred during the nine months ended September 30, 2013 related to the ITS Acquisition that did not recur in 2014. Additionally, during the nine months ended September 30, 2013 we incurred severance costs related to the departure of our former chief financial officer and higher legal costs for matters related to our deferred prosecution agreement and settlements with the DOJ and SEC (as discussed in Note 10 of our condensed consolidated financial statements), neither of which recurred during 2014. General and administrative expense in the nine months ended September 30, 2014 also benefited from a $2.75 million reimbursement from escrow related to the ITS Acquisition to reimburse the Company for certain post-acquisition expenditures.

Net gains recognized on asset dispositions for the nine months ended September 30, 2014 and 2013 were $0.4 million and $2.8 million, respectively, and were primarily the result of asset sales. We periodically sell equipment deemed to be excess or not currently required for operations.

Interest expense decreased $0.4 million to $33.5 million for the nine months ended September 30, 2014 compared with $33.9 million for the nine months ended September 30, 2013. This decrease was primarily related to a decrease in debt-related interest expense resulting from lower interest rates and a lower total debt balance on our outstanding debt, offset by an increase in amortization of debt issuance costs and a decrease in capitalized interest. Interest income decreased $2.2 million to $0.2 million during the nine months ended September 30, 2014, compared with interest income of $2.4 million during the nine months ended September 30, 2013 primarily related to interest earned on an IRS refund received during 2013.

We incurred a loss on extinguishment of debt of $30.2 million and $5.2 million, respectively, during the nine months ended September 30, 2014 and 2013. The loss on extinguishment of debt for 2014 related to the purchase and redemption of the 9.125% Notes during the first six months of 2014. The loss on extinguishment of debt for 2013 is related to the write-off of debt issuance costs resulting from the repayment of the $125 million Goldman Term Loan in July 2013.

We had $1.4 million of other income for the nine months ended September 30, 2014 compared with $0.8 million of other expense for the nine months ended September 30, 2013. Other income is primarily related to earnings from our investment in an unconsolidated subsidiary that was acquired as part of the ITS Acquisition as well as settlements of claims against a vendor. This income is partially offset by losses related to foreign currency fluctuations from our Sakhalin Island operations.

Income tax expense was $14.1 million for the nine months ended September 30, 2014, compared with $18.8 million for the nine months ended September 30, 2013. The decrease is driven primarily by the mix of operations and by the decrease in pre-tax income from $35.9 million for the nine months ended September 30, 2013 compared to $30.4 million for the nine months ended September 30, 2014.

LIQUIDITY AND CAPITAL RESOURCES

We periodically evaluate our liability requirements, capital needs and availability of resources in view of inventory levels, expansion plans, debt service requirements and other operational cash needs. To meet our short and long term liquidity requirements, including payment of operating expenses and repaying debt, we rely primarily on cash from operations. However, we have recently sought, and may in the future seek, to raise additional capital. We expect that for the foreseeable future, cash generated from operations will be sufficient to provide us the ability to fund our operations, provide the working capital necessary to support our strategy, and fund planned capital expenditures.

Cash Flows

As of September 30, 2014, we had cash and cash equivalents of $78.3 million, a decrease of $70.4 million from December 31, 2013. Cash flows from operating activities for the nine months ended September 30, 2014 were $144.4 million, compared with $125.3 million for the 2013 comparable period. We have reinvested a substantial portion of our operating cash flows to enhance our fleet of drilling rigs and add rental tools equipment. We do not pay dividends to our shareholders. Changes in working capital were a use of cash of $18.6 million and a use of cash of $14.7 million for the nine months ended September 30, 2014 and 2013, respectively. Uses of operating cash flows for the nine months ended September 30, 2013 primarily related to ITS Acquisition which resulted in increased receivables, inventory, and accounts payable. Changes in cash from operating activities were also impacted by non-cash charges such as depreciation expense, loss on debt extinguishment, deferred tax benefit, and stock compensation expense. Depreciation expense increased due to both the ITS Acquisition and our two arctic-class drilling rigs in Alaska commencing work in late 2012 and early 2013. It is our current intention to continue to utilize our operating cash flows to finance further investments in rental tools inventories, rig purchases or upgrades as well as other strategic investments aligned to our strategies.

Cash flows used in investing activities were $148.8 million for the nine months ended September 30, 2014 compared with $215.3 million for the 2013 comparable period. Our primary use of cash in 2014 was $151.1 million for capital expenditures and our primary use of cash in 2013 was $118.0 million for the ITS Acquisition, net of cash acquired and $102.9 million for capital expenditures. Capital expenditures in each period were primarily for tubular and other products for our rental tools business and rig-related enhancements and maintenance.

Cash flows used in financing activities were $65.9 million for the nine months ended September 30, 2014, primarily related to the repayment of $425.0 million of our 9.125% Notes, payment of $26.2 million of related tender and consent premiums, and payment of debt issuance costs of $7.6 million. Cash provided by financing activities included proceeds of $360.0 million from issuance of our 6.75% Notes and reborrowing of $40.0 million of Term Loans under our Secured Credit Agreement. The primary sources of cash for the nine months ended September 30, 2013 were $225.0 million of proceeds from issuance of 7.50%

Notes and $125.0 million of proceeds from issuance of the Goldman Term Loan. Cash used in financing activities included pay-off of the Goldman Term Loan in the 2013 third quarter, principal payments made under our Term Loan and payments of debt issuance costs.

Financing Activities

6.75% Senior Notes, due July 2022

On January 22, 2014, we issued $360.0 million aggregate principal amount of the 6.75% Notes pursuant to an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Net proceeds from the 6.75% Notes offering plus a $40.0 million draw under the Secured Credit Agreement and cash on hand were utilized to redeem $416.2 million aggregate principal amount of our outstanding 9.125% Senior Notes due 2018 pursuant to a tender and consent solicitation offer commenced on January 7, 2014. See further discussion of the tender and consent solicitation offer below entitled "*9.125% Senior Notes, due April 2018*".

The 6.75% Notes are general unsecured obligations of the Company and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 6.75% Notes are jointly and severally guaranteed by all of our subsidiaries that guarantee indebtedness under our Secured Credit Agreement and our 7.50% Notes. Interest on the 6.75% Notes is payable on January 15 and July 15 of each year, beginning July 15, 2014. Debt issuance costs related to the 6.75% Notes of approximately $7.6 million ($7.1 million net of amortization as of September 30, 2014) are being amortized over the term of the notes using the effective interest rate method.

At any time prior to January 15, 2017, we may redeem up to 35 percent of the aggregate principal amount of the 6.75% Notes at a redemption price of 106.75 percent of the principal amount, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of certain equity offerings by us. On and after January 15, 2018, we may redeem all or a part of the 6.75% Notes upon appropriate notice, at a redemption price of 103.375 percent of the principal amount, and at redemption prices decreasing each year thereafter to par beginning January 15, 2020. If we experience certain changes in control, we must offer to repurchase the 6.75% Notes at 101.0 percent of the aggregate principal amount, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

The Indenture restricts our ability and the ability of certain subsidiaries to: (i) sell assets, (ii) pay dividends or make other distributions on capital stock or redeem or repurchase capital stock or subordinated indebtedness, (iii) make investments, (iv) incur or guarantee additional indebtedness, (v) create or incur liens, (vi) enter into sale and leaseback transactions, (vii) incur dividend or other payment restrictions affecting subsidiaries, (viii) merge or consolidate with other entities, (ix) enter into transactions with affiliates, and (x) engage in certain business activities. Additionally, the Indenture contains certain restrictive covenants designating certain events as Events of Default. These covenants are subject to a number of important exceptions and qualifications.

7.50% Senior Notes, due August 2020

On July 30, 2013, we issued $225.0 million aggregate principal amount of the 7.50% Notes pursuant to an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Net proceeds from the 7.50% Notes offering were primarily used to repay the $125.0 million aggregate principal amount of the Goldman Term Loan, to repay $45.0 million of Term Loan borrowings under our Secured Credit Agreement and for general corporate purposes.

The 7.50% Notes are general unsecured obligations of the Company and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 7.50% Notes are jointly and severally guaranteed by all of our subsidiaries that guarantee indebtedness under our Secured Credit Agreement and the 6.75% Notes. Interest on the 7.50% Notes is payable on February 1 and August 1 of each year, beginning February 1, 2014. Debt issuance costs related to the 7.50% Notes of approximately $5.6 million ($4.8 million, net of amortization as of September 30, 2014) are being amortized over the term of the notes using the effective interest rate method.

At any time prior to August 1, 2016, we may redeem up to 35 percent of the aggregate principal amount of the 7.50% Notes at a redemption price of 107.50 percent of the principal amount, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of certain equity offerings by us. On and after August 1, 2016, we may redeem all or a part of the 7.50% Notes upon appropriate notice, at a redemption price of 103.750 percent of the principal amount, and at redemption prices decreasing each year thereafter to par beginning August 1, 2018. If we experience certain changes in control, we must offer to repurchase the 7.50% Notes at 101.0 percent of the aggregate principal amount, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

The Indenture restricts our ability and the ability of certain subsidiaries to: (i) sell assets, (ii) pay dividends or make other distributions on capital stock or redeem or repurchase capital stock or subordinated indebtedness, (iii) make investments, (iv) incur or guarantee additional indebtedness, (v) create or incur liens, (vi) enter into sale and leaseback transactions, (vii) incur dividend or other payment restrictions affecting subsidiaries, (viii) merge or consolidate with other entities, (ix) enter into transactions with affiliates, and (x) engage in certain business activities. Additionally, the Indenture contains certain restrictive covenants designating certain events as Events of Default. These covenants are subject to a number of important exceptions and qualifications.

9.125% Senior Notes, due April 2018

On March 22, 2010, we issued $300.0 million aggregate principal amount of the 9.125% Notes pursuant to an Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. Net proceeds from the 9.125% Notes offering were primarily used to redeem the $225.0 million aggregate principal amount of our 9.625% Senior Notes due 2013 and to repay $42.0 million of borrowings under our senior secured revolving credit facility.

On April 25, 2012, we issued an additional $125.0 million aggregate principal amount of 9.125% Notes under the same indenture at a price of 104.0% of par, resulting in gross proceeds of $130.0 million. Net proceeds from the offering were utilized to refinance $125.0 million aggregate principal amount of the 2.125% Convertible Senior Notes due July 2012.

On January 7, 2014, we commenced a tender and consent solicitation with respect to the 9.125% Notes. The tender offer price was $1,061.98, inclusive of a $30.00 consent payment, for each $1,000 principal amount of 9.125% Notes, plus accrued and unpaid interest. On January 22, 2014, we paid $453.7 million for the tendered 9.125% Notes, comprised of $416.2 million of aggregate principal amount of the 9.125% Notes, $25.8 million of tender and consent premiums and $11.7 million of accrued interest. On April 1, 2014, we redeemed the $8.8 million aggregate principal amount of the outstanding 9.125% Notes for a purchase price of $9.6 million, inclusive of a $0.4 million call premium and $0.4 million interest. During the nine months ended September 30, 2014, we recorded a loss on extinguishment of debt of approximately $30.2 million, which included the tender and consent premiums of $25.8 million, the call premium of $0.4 million and the write-off of unamortized debt issuance costs of $7.7 million, offset by the write-off of the remaining unamortized debt issuance premium of $3.8 million.

Amended and Restated Credit Agreement

On December 14, 2012, we entered into the Secured Credit Agreement consisting of a senior secured $80.0 million revolving facility (Revolver) and a senior secured term loan facility (Term Loan). In July 2013, the Secured Credit Agreement was amended to permit re-borrowing in the form of additional term loans, of up to $45.0 million, decreasing by $2.5 million at the end of each quarter beginning September 30, 2013 and ending March 31, 2014. In January 2014 we re-borrowed $40 million of the Term Loan pursuant to the amendment.

Our obligations under the Secured Credit Agreement are guaranteed by substantially all of our direct and indirect domestic subsidiaries other than immaterial subsidiaries and subsidiaries generating revenues primarily outside the United States, each of which have executed guaranty agreements, and are secured by first priority liens on our accounts receivable, specified barge rigs and rental equipment. The Secured Credit Agreement contains customary affirmative and negative covenants with which we were in compliance as of September 30, 2014 and December 31, 2013. The Secured Credit Agreement matures on December 14, 2017.

Revolver

Our Revolver is available for general corporate purposes and to support letters of credit. Interest on Revolver loans accrues at a Base Rate plus an Applicable Rate or LIBOR plus an Applicable Rate. Under the Secured Credit Agreement, the Applicable Rate varies from a rate per annum ranging from 2.50 percent to 3.00 percent for LIBOR rate loans and 1.50 percent to 2.00 percent for base rate loans, determined by reference to the consolidated leverage ratio (as defined in the Secured Credit Agreement). Revolving loans are available subject to a borrowing base calculation based on a percentage of eligible accounts receivable, certain specified barge drilling rigs and rental equipment of the Company and its subsidiary guarantors. There were no revolving loans outstanding at September 30, 2014 and December 31, 2013. Letters of credit outstanding against the Revolver as of September 30, 2014 and December 31, 2013 totaled $6.4 million and $4.6 million, respectively.

Term Loan

The Term Loan originated at $50.0 million on December 14, 2012 and requires quarterly principal payments of $2.5 million, which began March 31, 2013. Interest on the Term Loan accrues at a Base Rate plus 2.00 percent or LIBOR plus 3.00 percent. The outstanding balance on the Term Loan at December 31, 2013 was zero. In January 2014 we re-borrowed $40 million of the Term Loan and used the proceeds, along with the proceeds from the issuance of the 6.75% Notes, to repurchase our 9.125% Notes. As of September 30, 2014 the remaining balance on the Term Loan was $32.5 million. We are no longer able to re-borrow amounts under the Term Loan.

Long-Term Debt Summary

Our principal amount of long-term debt, including current portion, was $617.5 million as of September 30, 2014 which consisted of:

- $360.0 million aggregate principal amount of 6.75% Notes;
- $225.0 million aggregate principal amount of 7.50% Notes;
- $32.5 million under our Term Loan, $10.0 million of which is classified as current.

As of September 30, 2014, we had approximately $151.9 million of liquidity, which consisted of $78.3 million of cash and cash equivalents on hand and $73.6 million of availability under our Revolver and zero availability under our Term Loan.

Off-Balance Sheet Arrangements

We do not have any unconsolidated special-purpose entities, off-balance sheet financing arrangements or guarantees of third-party financial obligations. We have no energy or commodity contracts.

ITEM 3. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

There has been no material change in the market risk faced by us from that reported in our 2013 Annual Report on Form 10-K filed with the SEC on March 10, 2014. For more information on market risk, see Part II, Item 7A in our 2013 Annual Report on Form 10-K.

ITEM 4. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities and Exchange Act of 1934 as amended (the Exchange Act), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, as of September 30, 2014 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting, during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

For information regarding legal proceedings, see Note 10, "Commitments and Contingencies," in Item 1 of Part I of this quarterly report on Form 10-Q, which information is incorporated herein by reference into this item.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors disclosed in *Item 1A. Risk Factors* of our annual report on Form 10-K for the year ended December 31, 2013.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company currently has no active share repurchase programs. Periodically, the Company purchases shares on the open market to meet our employer matching requirements under our 401(k) Retirement Savings Plan. Additionally, when restricted stock awarded by the Company becomes taxable compensation to personnel, shares may be withheld to satisfy the associated withholding tax liabilities. Information on our purchases of equity securities by means of such share withholdings is provided in the table below:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased		Average Price Paid Per Share (1)
July 1-31, 2014	653	$	6.62
August 1-31, 2014	13,785	$	6.25
September 1-30, 2014	2,261	$	6.38
Total	16,699	$	6.28

(1) Average share price paid per share is calculated as the weighted average price derived from the closing price on the date of vesting.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

The following exhibits are filed or furnished as a part of this report:

Exhibit Number		DESCRIPTION
3.1	—	Amended and Restated By-laws of Parker Drilling Company dated July 31, 2014 (Incorporated by reference to Exhibit 3.1 to Parker Drilling Company's Current Report on Form 8-K filed on August 1, 2014).
12.1	—	Computation of Ratio of Earnings to Fixed Charges
31.1	—	Gary G. Rich, Chairman, President and Chief Executive Officer, Rule 13a-14(a)/15d-14(a) Certification.
31.2	—	Christopher T. Weber, Senior Vice President and Chief Financial Officer, Rule 13a-14(a)/15d- 14(a) Certification.
32.1	—	Gary G. Rich, Chairman, President and Chief Executive Officer, Section 1350 Certification.
32.2	—	Christopher T. Weber, Senior Vice President and Chief Financial Officer, Section 1350 Certification.
101.INS	—	XBRL Instance Document.
101.SCH	—	XBRL Taxonomy Schema Document.
101.CAL	—	XBRL Calculation Linkbase Document.
101.LAB	—	XBRL Label Linkbase Document.
101.PRE	—	XBRL Presentation Linkbase Document.
101.DEF	—	XBRL Definition Linkbase Document.

SIGNATURES

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

PARKER DRILLING COMPANY

Date: November 6, 2014

By: ______________________________

Gary G. Rich
Chairman, President and Chief Executive Officer

By: ______________________________

Christopher T. Weber
Senior Vice President and Chief Financial Officer

INDEX TO EXHIBITS

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EXHIBIT 12.1

Parker Drilling Company
Computation of Ratio of Earnings to Fixed Charges

	Nine Months Ended September 30, 2014	Fiscal Year Ended December 31, 2013	2012	2011	2010	2009
Pretax Income	30,415,378	52,787,710	70,977,206	(65,411,628)	11,504,903	9,826,774
Fixed Charges	34,284,278	50,195,954	43,782,341	41,864,658	40,294,016	35,426,257
Amortization of Capitalized Interest	3,073,231	4,058,459	1,886,832	1,556,952	1,819,086	1,974,592
Capitalized Interest	(798,447)	(2,375,946)	(10,240,245)	(19,271,105)	(13,488,684)	(5,975,973)
Earnings before Income Tax & Fixed Charges	66,974,440	104,666,177	106,406,134	(41,261,123)	40,129,321	41,251,650
Interest Expense	33,485,831	47,820,008	33,542,096	22,593,553	26,805,332	29,450,284
Capitalized Interest	798,447	2,375,946	10,240,245	19,271,105	13,488,684	5,975,973
Total Fixed Charges	34,284,278	50,195,954	43,782,341	41,864,658	40,294,016	35,426,257
Ratio of Earnings to Fixed Charges	2x	2.1x	2.4x	(1)	1.0x	1.2x

(1) For the year ended December 31, 2011, earnings were deficient to cover fixed charges by $41.3 million, which was primarily due to a pre-tax, non-cash charge to earnings of $170.0 million related to the impairment of our two Alaska rigs.

EXHIBIT 31.1

PARKER DRILLING COMPANY
RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Gary G. Rich, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2014, of Parker Drilling Company (the registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 6, 2014

Gary G. Rich
Chairman, President and Chief Executive Officer

EXHIBIT 31.2

PARKER DRILLING COMPANY
RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Christopher T. Weber, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2014, of Parker Drilling Company (the registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2014

Christopher T. Weber
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Parker Drilling Company (the Company) hereby certifies, to such officer's knowledge, that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (the Report) fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 6, 2014

Gary G. Rich
Chairman, President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure statement.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Parker Drilling Company (the Company) hereby certifies, to such officer's knowledge, that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (the Report) fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 6, 2014

Christopher T. Weber
Senior Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure statement.