

HELMERICH & PAYNE INC  
Form 10-Q  
August 08, 2014  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For quarterly period ended: **June 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: 1-4221

**HELMERICH & PAYNE, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**73-0679879**  
(I.R.S. Employer I.D. Number)

**1437 South Boulder Avenue, Tulsa, Oklahoma, 74119**

(Address of principal executive office)(Zip Code)

**(918) 742-5531**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year,  
if changed since last report)

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 small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

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

**CLASS**  
Common Stock, \$0.10 par value

**OUTSTANDING AT July 31, 2014**  
108,226,909



Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	<b>Page No.</b>
<u>PART I.</u>	
	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Condensed Balance Sheets as of June 30, 2014 and September 30, 2013</u> 3
	<u>Consolidated Condensed Statements of Income for the Three and Nine Months Ended June 30, 2014 and 2013</u> 4
	<u>Consolidated Condensed Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2014 and 2013</u> 5
	<u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended June 30, 2014 and 2013</u> 6
	<u>Consolidated Condensed Statement of Shareholders' Equity for the Nine Months Ended June 30, 2014</u> 7
	<u>Notes to Consolidated Condensed Financial Statements</u> 8-20
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 21-27
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 28
<u>Item 4.</u>	<u>Controls and Procedures</u> 28
<u>PART II.</u>	
	<u>OTHER INFORMATION</u>
<u>Item 1.</u>	<u>Legal Proceedings</u> 28
<u>Item 1A.</u>	<u>Risk Factors</u> 28-29
<u>Item 5.</u>	<u>Other Information</u> 29
<u>Item 6.</u>	<u>Exhibits</u> 30
<u>Signatures</u>	31

Table of Contents

## PART I. FINANCIAL INFORMATION

## HELMERICH &amp; PAYNE, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share and per share amounts)

## ITEM 1. FINANCIAL STATEMENTS

	June 30, 2014	September 30, 2013
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 549,928	\$ 447,868
Accounts receivable, less reserve of \$4,601 at June 30, 2014 and \$4,795 at September 30, 2013	705,787	621,420
Inventories	106,250	88,866
Deferred income taxes	12,170	16,414
Prepaid expenses and other	69,324	79,938
Current assets of discontinued operations	6,962	3,705
Total current assets	1,450,421	1,258,211
Investments	279,428	316,154
Property, plant and equipment, net	4,943,660	4,676,103
Other assets	19,573	14,359
Total assets	\$ 6,693,082	\$ 6,264,827
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 139,396	\$ 144,379
Accrued liabilities	244,539	189,684
Long-term debt due within one year	115,000	115,000
Current liabilities of discontinued operations	3,176	3,210
Total current liabilities	502,111	452,273
Noncurrent liabilities:		
Long-term debt	80,000	80,000
Deferred income taxes	1,230,633	1,222,981
Other	57,465	65,351
Noncurrent liabilities of discontinued operations	3,786	495
Total noncurrent liabilities	1,371,884	1,368,827
Shareholders' equity:		
Common stock, \$.10 par value, 160,000,000 shares authorized, 110,475,089 shares and 108,738,577 shares issued as of June 30, 2014 and September 30, 2013, respectively and 108,199,941 shares and 106,716,970 shares outstanding as of June 30, 2014 and September 30, 2013, respectively	11,048	10,874

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

Preferred stock, no par value, 1,000,000 shares authorized, no shares issued		
Additional paid-in capital	376,465	288,758
Retained earnings	4,431,974	4,102,663
Accumulated other comprehensive income	112,445	132,530
Treasury stock, at cost	(112,845)	(91,098)
Total shareholders' equity	4,819,087	4,443,727
Total liabilities and shareholders' equity	\$ 6,693,082	\$ 6,264,827

The accompanying notes are an integral part of these statements.

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Operating revenues:				
Drilling U.S. Land	\$ 802,279	\$ 695,816	\$ 2,275,744	\$ 2,077,556
Drilling Offshore	64,554	53,859	186,884	167,182
Drilling International Land	81,267	86,978	262,141	268,337
Other	3,987	3,544	9,900	10,003
	952,087	840,197	2,734,669	2,523,078
Operating costs and other:				
Operating costs, excluding depreciation	515,239	450,990	1,469,454	1,379,598
Depreciation	128,978	117,790	373,178	336,822
General and administrative	34,222	31,090	100,896	96,347
Research and development	3,864	4,373	11,746	11,422
Income from asset sales	(2,128)	(4,006)	(11,890)	(14,538)
	680,175	600,237	1,943,384	1,809,651
Operating income from continuing operations	271,912	239,960	791,285	713,427
Other income (expense):				
Interest and dividend income	373	341	1,316	1,082
Interest expense	(1,435)	(2,091)	(4,354)	(4,585)
Gain from sale of investment securities	23,882	153,369	45,234	162,121
Other	346	(1,214)	(31)	(3,195)
	23,166	150,405	42,165	155,423
Income from continuing operations before income taxes	295,078	390,365	833,450	868,850
Income tax provision	102,788	139,387	293,389	307,194
Income from continuing operations	192,290	250,978	540,061	561,656
Income (loss) from discontinued operations before income taxes				
	(11)	15,181	2,775	14,701
Income tax provision			2,805	(485)
Income (loss) from discontinued operations	(11)	15,181	(30)	15,186
<b>NET INCOME</b>	<b>\$ 192,279</b>	<b>\$ 266,159</b>	<b>\$ 540,031</b>	<b>\$ 576,842</b>
Basic earnings per common share:				
Income from continuing operations	\$ 1.77	\$ 2.35	\$ 4.99	\$ 5.26
Income from discontinued operations		0.14		0.14
Net income	\$ 1.77	\$ 2.49	\$ 4.99	\$ 5.40

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

Diluted earnings per common share:							
Income from continuing operations	\$	1.75	\$	2.32	\$	4.92	\$ 5.19
Income from discontinued operations				0.14			0.14
Net income	\$	1.75	\$	2.46	\$	4.92	\$ 5.33
Weighted average shares outstanding:							
Basic		108,137		106,430		107,657	106,206
Diluted		109,285		107,826		109,086	107,717
Dividends declared per common share	\$	0.69	\$	0.50	\$	1.94	\$ 0.80

The accompanying notes are an integral part of these statements.



Table of Contents

## HELMERICH &amp; PAYNE, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 192,279	\$ 266,159	\$ 540,031	\$ 576,842
Other comprehensive income (loss), net of income taxes:				
Unrealized appreciation (depreciation) on securities, net of income taxes of \$5.3 million and \$1.0 million at June 30, 2014 and \$1.2 million and \$23.0 million at June 30, 2013	13,728	(7,495)	7,215	29,887
Reclassification of realized gains in net income, net of income taxes of (\$9.0) million and (\$17.5) million at June 30, 2014 and (\$60.8) million at June 30, 2013	(14,853)	(92,543)	(27,737)	(92,543)
Minimum pension liability adjustments, net of income taxes of \$0.1 million and \$0.3 million at June 30, 2014 and \$0.3 million and \$0.8 million at June 30, 2013	145	441	437	1,306
Other comprehensive loss	(980)	(99,597)	(20,085)	(61,350)
Comprehensive income	\$ 191,299	\$ 166,562	\$ 519,946	\$ 515,492

The accompanying notes are an integral part of these statements.

Table of Contents

## HELMERICH &amp; PAYNE, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine Months Ended June 30,	
	2014	2013
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 540,031	\$ 576,842
Adjustment for (income) loss from discontinued operations	30	(15,186)
Income from continuing operations	540,061	561,656
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	373,178	336,822
Provision for (recovery of) bad debt	(194)	3,781
Stock-based compensation	21,089	17,471
Other	1	1,156
Gain on sale of investment securities	(45,234)	(162,121)
Income from asset sales	(11,890)	(14,538)
Deferred income tax expense	28,665	15,822
Change in assets and liabilities:		
Accounts receivable	(84,173)	(5,697)
Inventories	(17,384)	(10,009)
Prepaid expenses and other	5,400	15,564
Accounts payable	(31,240)	(62,830)
Accrued liabilities	31,633	83,290
Deferred income taxes	(927)	(1,291)
Other noncurrent liabilities	(11,060)	(17,619)
Net cash provided by operating activities from continuing operations	797,925	761,457
Net cash provided by (used in) operating activities from discontinued operations	(30)	186
Net cash provided by operating activities	797,895	761,643
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(622,028)	(618,550)
Proceeds from sale of investment securities	49,205	232,221
Proceeds from asset sales	21,485	21,729
Net cash used in investing activities from continuing operations	(551,338)	(364,600)
Net cash provided by investing activities from discontinued operations	15,000	15,000
Net cash used in investing activities	(551,338)	(349,600)
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(189,542)	(39,519)
Exercise of stock options	22,370	6,118
Tax withholdings related to net share settlements of restricted stock	(3,049)	(1,677)
Excess tax benefit from stock-based compensation	25,724	7,420
Net cash used in financing activities	(144,497)	(27,658)
Net increase in cash and cash equivalents	102,060	384,385
Cash and cash equivalents, beginning of period	447,868	96,095
Cash and cash equivalents, end of period	\$ 549,928	\$ 480,480

The accompanying notes are an integral part of these statements.

Table of Contents

## HELMERICH &amp; PAYNE, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS EQUITY

NINE MONTHS ENDED JUNE 30, 2014

(Unaudited)

(in thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders Equity
Balance, September 30, 2013	108,739	\$ 10,874	\$ 288,758	\$ 4,102,663	\$ 132,530	2,022	\$ (91,098)	\$ 4,443,727
Net income				540,031				540,031
Other comprehensive loss					(20,085)			(20,085)
Cash dividends (\$1.94 per share)				(210,720)				(210,720)
Exercise of stock options	1,579	158	40,910			215	(18,698)	22,370
Tax benefit of stock-based awards, including excess tax benefits of \$25.7 million			25,724					25,724
Stock issued for vested restricted stock, net of shares withheld for employee taxes	157	16	(16)			38	(3,049)	(3,049)
Stock-based compensation			21,089					21,089
Balance, June 30, 2014	110,475	\$ 11,048	\$ 376,465	\$ 4,431,974	\$ 112,445	2,275	\$ (112,845)	\$ 4,819,087

The accompanying notes are an integral part of these statements.

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Unless the context otherwise requires, the use of the terms the Company , we , us and our in these Notes to Consolidated Condensed Financial Statements refers to Helmerich & Payne, Inc. and its consolidated subsidiaries.

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) and applicable rules and regulations of the Securities and Exchange Commission (the Commission ) pertaining to interim financial information. Accordingly, these interim financial statements do not include all information or footnote disclosures required by GAAP for complete financial statements and, therefore, should be read in conjunction with the Consolidated Financial Statements and notes thereto in our 2013 Annual Report on Form 10-K, as amended, and other current filings with the Commission. In the opinion of management all adjustments, consisting of those of a normal recurring nature, necessary to present fairly the results of the periods presented have been included. The results of operations for the interim periods presented may not necessarily be indicative of the results to be expected for the full year.

As more fully described in our 2013 Annual Report on Form 10-K, as amended, our contract drilling revenues are comprised of daywork drilling contracts for which the related revenues and expenses are recognized as services are performed. For contracts that are terminated by customers prior to the expirations of their fixed terms, contractual provisions customarily require early termination amounts to be paid to us. Revenues from early terminated contracts are recognized when all contractual requirements have been met.

2. Discontinued Operations

Current assets of discontinued operations consist of restricted cash to meet remaining in-country current obligations. Current and noncurrent liabilities of discontinued operations consist of municipal and income taxes payable and social obligations due within the country of Venezuela.

3. Earnings per Share

Accounting Standards Codification ( ASC ) 260, *Earnings per Share*, requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. We have granted and expect to continue to grant to employees restricted stock grants that contain non-forfeitable rights to dividends. Such grants are considered participating securities under ASC 260. As such, we are required to include these grants in the calculation of our basic earnings per share and

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

calculate basic earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings.

Basic earnings per share is computed utilizing the two-class method and is calculated based on the weighted-average number of common shares outstanding during the periods presented.

Diluted earnings per share is computed using the weighted-average number of common and common equivalent shares outstanding during the periods utilizing the two-class method for stock options and nonvested restricted stock.

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

Table of Contents

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
<b>Numerator:</b>				
Income from continuing operations	\$ 192,290	\$ 250,978	\$ 540,061	\$ 561,656
Income (loss) from discontinued operations	(11)	15,181	(30)	15,186
Net income	192,279	266,159	540,031	576,842
<b>Adjustment for basic earnings per share:</b>				
Earnings allocated to unvested shareholders	(1,134)	(1,441)	(3,160)	(2,972)
<b>Numerator for basic earnings per share:</b>				
From continuing operations	191,156	249,537	536,901	558,684
From discontinued operations	(11)	15,181	(30)	15,186
	191,145	264,718	536,871	573,870
<b>Adjustment for diluted earnings per share:</b>				
Effect of reallocating undistributed earnings of unvested shareholders	7	15	25	35
<b>Numerator for diluted earnings per share:</b>				
From continuing operations	191,163	249,552	536,926	558,719
From discontinued operations	(11)	15,181	(30)	15,186
	\$ 191,152	\$ 264,733	\$ 536,896	\$ 573,905
<b>Denominator:</b>				
Denominator for basic earnings per share weighted-average shares	108,137	106,430	107,657	106,206
Effect of dilutive shares from stock options and restricted stock	1,148	1,396	1,429	1,511
Denominator for diluted earnings per share adjusted weighted-average shares	109,285	107,826	109,086	107,717
<b>Basic earnings per common share:</b>				
Income from continuing operations	\$ 1.77	\$ 2.35	\$ 4.99	\$ 5.26
Income from discontinued operations		0.14		0.14
Net income	\$ 1.77	\$ 2.49	\$ 4.99	\$ 5.40
<b>Diluted earnings per common share:</b>				
Income from continuing operations	\$ 1.75	\$ 2.32	\$ 4.92	\$ 5.19
Income from discontinued operations		0.14		0.14
Net income	\$ 1.75	\$ 2.46	\$ 4.92	\$ 5.33

The following shares attributable to outstanding equity awards were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

Shares excluded from calculation of diluted earnings per share			750		256		801
Weighted-average price per share	\$	\$	57.29	\$	79.67	\$	57.22



Table of Contents

## 4. Financial Instruments and Fair Value Measurement

The estimated fair value of our available-for-sale securities, reflected on our Consolidated Condensed Balance Sheets as Investments, is based on market quotes. The following is a summary of available-for-sale securities, which excludes assets held in a Non-qualified Supplemental Savings Plan:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Equity securities June 30, 2014	\$ 64,462	\$ 200,600	\$	\$ 265,062
Equity securities September 30, 2013	\$ 68,434	\$ 237,214	\$	\$ 305,648

On an ongoing basis we evaluate the marketable equity securities to determine if any decline in fair value below cost is other-than-temporary. If a decline in fair value below cost is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis established. We review several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, (i) the length of time a security is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near-term prospects of the issuer and (iv) our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of securities used in determining realized gains and losses is based on the average cost basis of the security sold.

During the three and nine months ended June 30, 2014, we sold shares in an available-for-sale security realizing gains of \$23.9 million and \$45.2 million, respectively. During the third quarter ended June 30, 2013, we sold shares in an available-for-sale security realizing a gain of \$153.4 million. All of the gains from available-for-sale securities are included in gain from sale of investment securities in the Consolidated Condensed Statements of Income. Net income includes after-tax gains from the sale of available-for-sale securities as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
After-tax gain from the sale of available-for-sale securities	\$ 14,882	\$ 92,449	\$ 27,761	\$ 92,449
Earnings per diluted share from the sale of available-for-sale securities	\$ 0.13	\$ 0.86	\$ 0.25	\$ 0.86

During the nine months ended June 30, 2013, we sold our shares in three limited partnerships that were primarily invested in international equities realizing a gain of \$8.8 million that is included in gain from sale of investment securities in the Consolidated Condensed Statements of Income.

Assets held in the Non-qualified Supplemental Savings Plan are carried at fair value based on level 1 inputs described below. The fair value totaled \$14.4 million at June 30, 2014 and \$10.5 million at September 30, 2013.

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

The majority of cash equivalents are invested in highly liquid money-market mutual funds invested primarily in direct or indirect obligations of the U.S. Government. The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of those investments.

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. We use the fair value hierarchy established in ASC 820-10 to measure fair value to prioritize the inputs:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Table of Contents

- Level 2 Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

At June 30, 2014, our financial instruments utilizing Level 1 inputs include cash equivalents, equity securities with active markets, restricted cash included in other current assets and money market funds we have elected to classify as restricted assets that are included in other current assets and other assets. Also included is cash denominated in a foreign currency that we have elected to classify as restricted to be used to settle the remaining liabilities of discontinued operations. For these items, quoted current market prices are readily available.

At June 30, 2014, financial instruments utilizing level 2 inputs include a bank certificate of deposit included in other current assets.

Currently, we do not have any financial instruments utilizing Level 3 inputs.

The following table summarizes our assets measured at fair value on a recurring basis presented in our Consolidated Condensed Balance Sheet as of June 30, 2014:

	<b>Total Measure at Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
	(in thousands)			
<b>Assets:</b>				
Cash and cash equivalents	\$ 549,928	\$ 549,928	\$	\$
Equity securities	265,062	265,062		
Other current assets	31,060	30,810	250	
Other assets	2,000	2,000		
Total assets measured at fair value	\$ 848,050	\$ 847,800	\$ 250	\$

The following information presents the supplemental fair value information about fixed-rate debt at June 30, 2014 and September 30, 2013:

<b>June 30, 2014</b>	<b>September 30, 2013</b>
--------------------------	-------------------------------

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

(in millions)

Carrying value of fixed-rate debt	\$	195.0	\$	195.0
Fair value of fixed-rate debt	\$	201.4	\$	205.4

The fair value for fixed-rate debt was estimated using cash flows discounted at rates reflecting current interest rates at similar maturities plus a credit spread which was estimated using market information on debt instruments with a similar credit profile to us. The debt was valued using a Level 2 input.

Table of Contents

## 5. Accumulated Other Comprehensive Income

	June 30, 2014	September 30, 2013
	(in thousands)	
Pre-tax amounts:		
Unrealized appreciation on securities	\$ 200,599	\$ 237,214
Unrecognized actuarial loss	(18,523)	(19,210)
	\$ 182,076	\$ 218,004
After-tax amounts:		
Unrealized appreciation on securities	\$ 123,639	\$ 144,161
Unrecognized actuarial loss	(11,194)	(11,631)
	\$ 112,445	\$ 132,530

The following is a summary of the changes in accumulated other comprehensive income (loss), net of tax, by component for the three and nine months ended June 30, 2014:

	Three Months Ended June 30, 2014		
	Unrealized Appreciation (Depreciation) on Available-for-sale Securities	Defined Benefit Pension Plan (in thousands)	Total
Balances at April 1, 2014	\$ 124,764	\$ (11,339)	\$ 113,425
Other comprehensive income before reclassifications	13,728		13,728
Amounts reclassified from accumulated other comprehensive income (loss)	(14,853)	145	(14,708)
Net current-period other comprehensive income (loss)	(1,125)	145	(980)
Balances at June 30, 2014	\$ 123,639	\$ (11,194)	\$ 112,445

	Nine Months Ended June 30, 2014		
	Unrealized Appreciation (Depreciation) on Available-for-sale Securities	Defined Benefit Pension Plan (in thousands)	Total
Balance at October 1, 2013	\$ 144,161	\$ (11,631)	\$ 132,530
Other comprehensive income before reclassifications	7,215		7,215
Amounts reclassified from accumulated other comprehensive income (loss)	(27,737)	437	(27,300)
Net current-period other comprehensive income (loss)	(20,522)	437	(20,085)
Balances at June 30, 2014	\$ 123,639	\$ (11,194)	\$ 112,445



Table of Contents

The following provides detail about accumulated other comprehensive income (loss) components which were reclassified to the Condensed Consolidated Statement of Income during the three and nine months ended June 30, 2014:

Details About Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)					Affected Line Item in the Condensed Consolidated Statement of Income
	Three Months Ended June 30,		Nine Months Ended June 30,			
	2014	2013	2014	2013		
	(in thousands)		(in thousands)			
Unrealized gains on available-for-sale securities	\$ (23,882)	\$ (153,369)	\$ (45,234)	\$ (153,369)		Gain on sale of investment securities
	9,029	60,826	17,497	60,826		Income tax provision
	\$ (14,853)	\$ (92,543)	\$ (27,737)	\$ (92,543)		Net of tax
Defined Benefit Pension Items						
Amortization of net actuarial loss	\$ 228	\$ 685	\$ 686	\$ 2,055		General and administrative
	(83)	(244)	(249)	(749)		Income tax provision
	\$ 145	\$ 441	\$ 437	\$ 1,306		Net of tax
Total reclassifications for the period	\$ (14,708)	\$ (92,102)	\$ (27,300)	\$ 91,237		

## 6. Cash Dividends

The \$0.625 per share cash dividend declared March 5, 2014, was paid June 2, 2014. On June 4, 2014, a cash dividend of \$0.6875 per share was declared for shareholders of record on August 15, 2014, payable September 2, 2014. The dividend payable is included in accounts payable in the Consolidated Condensed Balance Sheet.

## 7. Stock-Based Compensation

On March 2, 2011, the 2010 Long-Term Incentive Plan (the 2010 Plan ) was approved by our stockholders. The 2010 Plan, among other things, authorizes the Human Resources Committee of the Board to grant non-qualified stock options, restricted stock awards and stock appreciation rights to selected employees and to non-employee Directors. Restricted stock may be granted for no consideration other than prior and future services. The purchase price per share for stock options may not be less than market price of the underlying stock on the date of grant. Stock options expire 10 years after the grant date. There were 261,438 non-qualified stock options and 230,375 shares of restricted stock awards granted in the nine months ended June 30, 2014. Awards outstanding in the 2005 Long-Term Incentive Plan (the 2005 Plan ) and one prior equity plan remain subject to the terms and conditions of those plans.

A summary of compensation cost for stock-based payment arrangements recognized in general and administrative expense is as follows:

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Compensation expense				
Stock options	\$ 3,758	\$ 2,672	\$ 9,400	\$ 8,804
Restricted stock	4,527	3,073	11,689	8,667
	\$ 8,285	\$ 5,745	\$ 21,089	\$ 17,471

STOCK OPTIONS

The following summarizes the weighted-average assumptions utilized in determining the fair value of options granted during the nine months ended June 30, 2014 and 2013:

	2014	2013
Risk-free interest rate	1.6%	0.7%
Expected stock volatility	52.6%	53.87%
Dividend yield	3.1%	1.1%
Expected term (in years)	5.5	5.5



## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

### Table of Contents

*Risk-Free Interest Rate.* The risk-free interest rate is based on U.S. Treasury securities for the expected term of the option.

*Expected Volatility Rate.* Expected volatility is based on the daily closing price of our stock based upon historical experience over a period which approximates the expected term of the option.

*Expected Dividend Yield.* The expected dividend yield is based on our current dividend yield.

*Expected Term.* The expected term of the options granted represents the period of time that they are expected to be outstanding. We estimate the expected term of options granted based on historical experience with grants and exercises.

A summary of stock option activity under the Plan for the three and nine months ended June 30, 2014 is presented in the following tables:

Options	Shares (in thousands)	Three Months Ended June 30, 2014		
		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at April 1, 2014	2,818	\$ 42.59		
Granted				
Exercised	(151)	30.05		
Forfeited/Expired	(3)	55.03		
Outstanding at June 30, 2014	2,664	\$ 43.29	5.5	\$ 194.0
Vested and expected to vest at June 30, 2014	2,657	\$ 43.26	5.5	\$ 193.6
Exercisable at June 30, 2014	1,917	\$ 35.82	4.4	\$ 153.9

Options	Shares (in thousands)	Nine Months Ended June 30, 2014	
		Weighted-Average Exercise Price	Weighted-Average Exercise Price
Outstanding at October 1, 2013	3,991	\$ 34.12	
Granted	261	79.67	
Exercised	(1,579)	26.00	
Forfeited/Expired	(9)	70.74	
Outstanding at June 30, 2014	2,664	\$ 43.29	

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

The weighted-average fair value of options granted in the first quarter of fiscal 2014 was \$29.44. No options were granted in the second and third quarters of fiscal 2014.

The total intrinsic value of options exercised during the three and nine months ended June 30, 2014 was \$12.4 million and \$99.0 million, respectively.

As of June 30, 2014 the unrecognized compensation cost related to stock options was \$9.5 million which is expected to be recognized over a weighted-average period of 2.5 years.

### RESTRICTED STOCK

Restricted stock awards consist of our common stock and are time-vested over three to six years. We recognize compensation expense on a straight-line basis over the vesting period. The fair value of restricted stock awards under the 2010 Plan is determined based on the closing price of our shares on the grant date. As of June 30, 2014, there was \$23.9 million of total unrecognized compensation cost related to unvested restricted stock awards which is expected to be recognized over a weighted-average period of 2.5 years.

Table of Contents

A summary of the status of our restricted stock awards as of June 30, 2014 and changes in restricted stock outstanding during the nine months then ended is presented below:

Restricted Stock Awards	Nine Months Ended June 30, 2014	
	Shares (in thousands)	Weighted- Average Grant-Date Fair Value
Unvested at October 1, 2013	576	\$ 55.17
Granted	230	79.67
Vested (1)	(157)	54.08
Forfeited	(8)	65.72
Unvested at June 30, 2014	641	\$ 64.10

(1) The number of restricted stock awards vested includes shares that we withheld on behalf of our employees to satisfy the statutory tax withholding requirements.

## 8. Debt

At June 30, 2014 and September 30, 2013, we had the following unsecured long-term debt outstanding:

	June 30, 2014	September 30, 2013
	(in thousands)	
Unsecured intermediate debt issued August 15, 2002:		
Series D, due August 15, 2014, 6.56%	\$ 75,000	\$ 75,000
Unsecured senior notes issued July 21, 2009:		
Due July 21, 2014, 6.10%	40,000	40,000
Due July 21, 2015, 6.10%	40,000	40,000
Due July 21, 2016, 6.10%	40,000	40,000
	\$ 195,000	\$ 195,000
Less long-term debt due within one year	115,000	115,000
Long-term debt	\$ 80,000	\$ 80,000

The intermediate unsecured debt outstanding at June 30, 2014 matures August 15, 2014 and carries an interest rate of 6.56 percent, which is paid semi-annually. The terms require that we maintain a ratio of debt to total capitalization of less than 55 percent. The debt is held by various entities. We intend to make the scheduled payment due August 15, 2014.

We have \$120 million in senior unsecured fixed-rate notes outstanding at June 30, 2014 that mature over a period from July 2014 to July 2016. Interest on the notes is paid semi-annually based on an annual rate of 6.10 percent. Annual principal repayments of \$40 million are due

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

July 2014 through July 2016. Subsequent to June 30, 2014, we paid the \$40 million due July 21, 2014. We have complied with our financial covenants which require us to maintain a funded leverage ratio of less than 55 percent and an interest coverage ratio (as defined) of not less than 2.50 to 1.00.

We have a \$300 million unsecured revolving credit facility that will mature May 25, 2017. The credit facility has \$100 million available to use for letters of credit. We anticipate that the majority of any borrowings under the facility will accrue interest at a spread over the London Interbank Offered Rate (LIBOR). We will also pay a commitment fee based on the unused balance of the facility. Borrowing spreads as well as commitment fees are determined according to a scale based on a ratio of our total debt to total capitalization. The spread over LIBOR ranges from 1.125 percent to 1.75 percent per annum and commitment fees range from .15 percent to .35 percent per annum. Based on our debt to total capitalization on June 30, 2014, the spread over LIBOR and commitment fees would be 1.125 percent and .15 percent, respectively. Financial covenants in the facility require us to maintain a funded leverage ratio (as defined) of less than 50 percent and an interest coverage ratio (as defined) of not less than 3.00 to 1.00. The credit facility contains additional terms, conditions, restrictions, and covenants that we believe are usual and customary in unsecured debt arrangements for companies of similar size and credit quality. At June 30, 2014, we were in compliance with all debt covenants. As of June 30, 2014, there were no borrowings, but there were three letters of credit outstanding in the amount of \$34.2 million. At June 30, 2014, we had \$265.8 million available to borrow under our \$300 million unsecured credit facility.

Table of Contents

At June 30, 2014, we had two letters of credit outstanding, totaling \$12 million that were issued to support international operations. These letters of credit were issued separately from the \$300 million credit facility so they do not reduce the available borrowing capacity discussed in the previous paragraph.

9. Income Taxes

Our effective tax rate for the first nine months of fiscal 2014 and 2013 was 35.2 percent and 35.4 percent, respectively. Our effective tax rate for the three months ended June 30, 2014 and 2013 was 34.8 percent and 35.7 percent, respectively. Effective tax rates differ from the U.S. federal statutory rate of 35.0 percent primarily due to state and foreign income taxes and the tax benefit from the Internal Revenue Code Section 199 deduction for domestic production activities.

For the next 12 months, we cannot predict with certainty whether we will achieve ultimate resolution of any uncertain tax positions associated with our U.S. and international operations that could result in increases or decreases of our unrecognized tax benefits. However, we believe it is reasonably possible that the reserve for uncertain tax positions may increase by approximately \$8.5 million to \$11.2 million during the next 12 months due to international matters. We provided for uncertain tax positions of \$3.3 million related to discontinued operations during the nine months ended June 30, 2014.

10. Commitments and Contingencies

In conjunction with our current drilling rig construction program, purchase commitments for equipment, parts and supplies of approximately \$246.0 million are outstanding at June 30, 2014.

Various legal actions, the majority of which arise in the ordinary course of business, are pending. We maintain insurance against certain business risks subject to certain deductibles. None of these legal actions are expected to have a material adverse effect on our financial condition, cash flows or results of operations.

We are contingently liable to sureties in respect of bonds issued by the sureties in connection with certain commitments entered into by us in the normal course of business. We have agreed to indemnify the sureties for any payments made by them in respect of such bonds.

During the ordinary course of our business, contingencies arise resulting from an existing condition, situation or set of circumstances involving an uncertainty as to the realization of a possible gain contingency. We account for gain contingencies in accordance with the provisions of ASC 450, *Contingencies*, and, therefore, we do not record gain contingencies or recognize income until realized. The property and equipment of our Venezuelan subsidiary was seized by the Venezuelan government on June 30, 2010. Our wholly-owned subsidiaries, Helmerich & Payne International Drilling Co. and Helmerich & Payne de Venezuela, C.A., filed a lawsuit in the United States District Court for the District of Columbia on September 23, 2011 against the Bolivarian Republic of Venezuela, Petroleos de Venezuela, S.A. ( PDVSA ) and PDVSA Petroleo, S.A. ( Petroleo ). Our subsidiaries seek damages for the taking of their Venezuelan drilling business in violation of international law and for breach of contract. While there exists the possibility of realizing a recovery, we are currently unable to determine the timing or amounts we may

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

receive, if any, or the likelihood of recovery. No gain contingencies are recognized in our Consolidated Financial Statements.

On November 8, 2013, the United States District Court for the Eastern District of Louisiana approved the previously disclosed October 30, 2013 plea agreement between our wholly owned subsidiary, Helmerich & Payne International Drilling Co., and the United States Department of Justice, United States Attorney's Office for the Eastern District of Louisiana ( DOJ ). The court's approval of the plea agreement resolved the DOJ's investigation into certain choke manifold testing irregularities that occurred in 2010 at one of Helmerich & Payne International Drilling Co.'s offshore platform rigs in the Gulf of Mexico. We are engaged in discussions with the Inspector General's office of the Department of Interior regarding the same events that were the subject of the DOJ's investigation. Although we presently believe that the outcome of our discussions will not have a material adverse effect on the Company, we can provide no assurances as to the timing or eventual outcome of these discussions.

Table of Contents

11. Segment Information

We operate principally in the contract drilling industry. Our contract drilling business includes the following reportable operating segments: U.S. Land, Offshore and International Land. The contract drilling operations consist mainly of contracting Company-owned drilling equipment primarily to large oil and gas exploration companies. To provide information about the different types of business activities in which we operate, we have included Offshore and International Land, along with our U.S. Land reportable operating segment, as separate reportable operating segments. Additionally, each reportable operating segment is a strategic business unit that is managed separately. Our primary international areas of operation include Colombia, Ecuador, Argentina, Tunisia, Bahrain, U.A.E. and other South American countries. Other includes additional non-reportable operating segments. Revenues included in Other consist primarily of rental income. Consolidated revenues and expenses reflect the elimination of all material intercompany transactions.

We evaluate segment performance based on income or loss from continuing operations (segment operating income) before income taxes which includes:

- revenues from external and internal customers
- direct operating costs
- depreciation and
- allocated general and administrative costs

but excludes corporate costs for other depreciation, income from asset sales and other corporate income and expense.

General and administrative costs are allocated to the segments based primarily on specific identification and, to the extent that such identification is not practical, on other methods which we believe to be a reasonable reflection of the utilization of services provided.

Segment operating income for all segments is a non-GAAP financial measure of our performance, as it excludes certain general and administrative expenses, corporate depreciation, income from asset sales and other corporate income and expense. We consider segment operating income to be an important supplemental measure of operating performance by presenting trends in our core businesses. We use this measure to facilitate period-to-period comparisons in operating performance of our reportable segments in the aggregate by eliminating items that affect comparability between periods. We believe that segment operating income is useful to investors because it provides a means to evaluate the operating performance of the segments on an ongoing basis using criteria that are used by our internal decision makers. Additionally, it highlights operating trends and aids analytical comparisons. However, segment operating income has limitations and should not be used as an alternative to operating income or loss, a performance measure determined in accordance with GAAP, as it excludes certain costs that may affect our operating performance in future periods.

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

Summarized financial information of our reportable segments for the nine months ended June 30, 2014 and 2013 is shown in the following tables:

(in thousands)	External Sales	Inter- Segment	Total Sales	Segment Operating Income (Loss)
<b>June 30, 2014</b>				
Contract Drilling:				
U.S. Land	\$ 2,275,744	\$	\$ 2,275,744	\$ 767,116
Offshore	186,884		186,884	54,837
International Land	262,141		262,141	30,489
	2,724,769		2,724,769	852,442
Other	9,900	646	10,546	(6,739)
	2,734,669	646	2,735,315	845,703
Eliminations		(646)	(646)	
Total	\$ 2,734,669	\$	\$ 2,734,669	\$ 845,703



Table of Contents

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
<b>June 30, 2013</b>				
Contract Drilling:				
U.S. Land	\$ 2,077,556	\$	\$ 2,077,556	\$ 696,774
Offshore	167,182		167,182	42,778
International Land	268,337		268,337	30,738
	2,513,075		2,513,075	770,290
Other	10,003	643	10,646	(6,638)
	2,523,078	643	2,523,721	763,652
Eliminations		(643)	(643)	
Total	\$ 2,523,078	\$	\$ 2,523,078	\$ 763,652

Summarized financial information of our reportable segments for the three months ended June 30, 2014 and 2013 is shown in the following tables:

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
<b>June 30, 2014</b>				
Contract Drilling:				
U.S. Land	\$ 802,279	\$	\$ 802,279	\$ 271,102
Offshore	64,554		64,554	16,996
International Land	81,267		81,267	6,570
	948,100		948,100	294,668
Other	3,987	215	4,202	(1,490)
	952,087	215	952,302	293,178
Eliminations		(215)	(215)	
Total	\$ 952,087	\$	\$ 952,087	\$ 293,178

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
<b>June 30, 2013</b>				
Contract Drilling:				
U.S. Land	\$ 695,816	\$	\$ 695,816	\$ 236,388
Offshore	53,859		53,859	14,122
International Land	86,978		86,978	8,458
	836,653		836,653	258,968
Other	3,544	214	3,758	(2,464)
	840,197	214	840,411	256,504
Eliminations		(214)	(214)	
Total	\$ 840,197	\$	\$ 840,197	\$ 256,504

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

Table of Contents

The following table reconciles segment operating income per the table above to income from continuing operations before income taxes as reported on the Consolidated Condensed Statements of Income.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Segment operating income	\$ 293,178	\$ 256,504	\$ 845,703	\$ 763,652
Income from asset sales	2,128	4,006	11,890	14,538
Corporate general and administrative costs and corporate depreciation	(23,394)	(20,550)	(66,308)	(64,763)
Operating income	271,912	239,960	791,285	713,427
Other income (expense):				
Interest and dividend income	373	341	1,316	1,082
Interest expense	(1,435)	(2,091)	(4,354)	(4,585)
Gain on sale of investment securities	23,882	153,369	45,234	162,121
Other	346	(1,214)	(31)	(3,195)
Total other income (expense)	23,166	150,405	42,165	155,423
Income from continuing operations before income taxes	\$ 295,078	\$ 390,365	\$ 833,450	\$ 868,850

The following table presents total assets by reportable segment.

	June 30, 2014	September 30, 2013
	(in thousands)	
Total assets		
U.S. Land	\$ 5,059,908	\$ 4,743,644
Offshore	142,900	149,128
International Land	532,480	486,914
Other	36,991	32,789
	5,772,279	5,412,475
Investments and corporate operations	913,841	848,647
Total assets from continued operations	6,686,120	6,261,122
Discontinued operations	6,962	3,705
	\$ 6,693,082	\$ 6,264,827

The following table presents revenues from external customers by country based on the location of service provided.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Operating revenues				

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

United States	\$	864,833	\$	750,644	\$	2,454,299	\$	2,249,764
Argentina		26,468		18,943		79,522		50,111
Colombia		16,953		22,856		64,747		74,330
Ecuador		17,293		15,993		51,915		48,234
Other foreign		26,540		31,761		84,186		100,639
Total	\$	952,087	\$	840,197	\$	2,734,669	\$	2,523,078

Table of Contents

## 12. Pensions and Other Post-retirement Benefits

The following provides information at June 30, 2014 and 2013 related to the Company-sponsored domestic defined benefit pension plan.

## Components of Net Periodic Benefit Cost

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2014	(in thousands)		2014	(in thousands)	
		2013		2014	2013	
Interest cost	\$	1,201	\$	1,105	\$	3,603
Expected return on plan assets		(1,664)		(1,496)		(4,992)
Recognized net actuarial loss		228		685		686
Net pension expense (benefit)	\$	(235)	\$	294	\$	(703)
						882

## Employer Contributions

We contributed \$4.5 million to the Pension Plan during the nine months ended June 30, 2014. If necessary to fund distributions, we may make additional contributions during the remainder of fiscal 2014.

## 13. International Risk Factors

International operations are subject to certain political, economic and other uncertainties not encountered in U.S. operations, including increased risks of terrorism, kidnapping of employees, expropriation of drilling rigs, equipment, land and other property, as well as expropriation of a particular oil company operator's property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of our operations or on our ability to continue operations in certain areas.

## 14. Recently Issued Accounting Standards

On October 1, 2013, we adopted Accounting Standards Update (ASU) 2013-02, *Other Comprehensive Income*. ASU No. 2013-02 amended ASC 220, *Comprehensive Income*, and superseded and replaced ASU 2011-05, *Presentation of Comprehensive Income*, and ASU 2011-12, *Comprehensive Income*. The standard did not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the guidance does require an entity to provide enhanced disclosures to present separately by component

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

reclassifications out of accumulated other comprehensive income. The adoption had no impact on the amount of OCI reported in the Consolidated Financial Statements.

In May 2014, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes virtually all existing revenue recognition guidance. The new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The provisions of ASU 2014-09 are effective for interim and annual periods beginning after December 15, 2016, and we have the option of using either a full retrospective or a modified retrospective approach when adopting this new standard. We are currently evaluating the alternative transition methods and the potential effects of the adoption of this update on our financial statements.

Table of Contents

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

June 30, 2014

**RISK FACTORS AND FORWARD-LOOKING STATEMENTS**

The following discussion should be read in conjunction with the Consolidated Condensed Financial Statements and related notes included elsewhere herein and the Consolidated Financial Statements and notes thereto included in our 2013 Annual Report on Form 10-K, as amended. Our future operating results may be affected by various trends and factors which are beyond our control. These include, among other factors, fluctuations in natural gas and crude oil prices, the loss of one or a number of our largest customers, early termination of drilling contracts and failure to realize backlog drilling revenue, forfeiture of early termination payments under fixed term contracts due to sustained unacceptable performance, unsuccessful collection of receivables, inability to procure key rig components, failure to timely deliver rigs within applicable grace periods, disruption to or cessation of the business of our limited source vendors or fabricators, currency exchange losses, expropriation of assets and other international uncertainties, loss of well control, pollution of offshore waters and reservoir damage, operational risks that are not fully insured against or covered by adequate contractual indemnities, passage of laws or regulations including those limiting hydraulic fracturing, litigation and governmental investigations, failure to comply with the terms of our plea agreement with the United States Department of Justice, failure to comply with the United States Foreign Corrupt Practices Act, foreign anti-bribery laws and other governmental laws and regulations, a sluggish global economy, changes in general economic and political conditions, adverse weather conditions including hurricanes, rapid or unexpected changes in drilling or other technologies and uncertain business conditions that affect our businesses. Accordingly, past results and trends should not be used by investors to anticipate future results or trends. Our risk factors are more fully described in our 2013 Annual Report on Form 10-K, as amended, and elsewhere in this Form 10-Q.

With the exception of historical information, the matters discussed in Management's Discussion & Analysis of Financial Condition and Results of Operations include forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe, or continue or the negative thereof or similar terminology. Forward-looking statements are based on various assumptions. We caution that, while we believe such assumptions to be reasonable and make them in good faith, assumptions about future events and conditions almost always vary from actual results. The differences between assumed facts and actual results can be material. We are including this cautionary statement to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by us or persons acting on our behalf. The factors identified in this cautionary statement are important factors (but not necessarily all important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement made by us or persons acting on our behalf. Except as required by law, we undertake no duty to update or revise our forward-looking statements based on changes of internal estimates on expectations or otherwise.

**RESULTS OF OPERATIONS**

**Three Months Ended June 30, 2014 vs. Three Months Ended June 30, 2013**

We reported net income from continuing operations of \$192.3 million (\$1.75 per diluted share) from operating revenues of \$952.1 million for the third quarter ended June 30, 2014, compared with net income from continuing operations of \$251.0 million (\$2.32 per diluted share) from

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

operating revenues of \$840.2 million for the third quarter of fiscal year 2013. In the third quarter of fiscal 2013, we had income from discontinued operations of \$15.2 million (\$0.14 per diluted share). Including discontinued operations, we recorded net income of \$192.3 million (\$1.75 per diluted share) for the third quarter ended June 30, 2014, compared to net income of \$266.2 million (\$2.46 per diluted share) for the third quarter ended June 30, 2013. Net income for the third quarter of fiscal 2014 includes approximately \$14.9 million (\$0.13 per diluted share) of after-tax gains from the sale of investment securities and approximately \$1.4 million (\$0.01 per diluted share) of after-tax gains from the sale of assets. Net income for the third quarter of fiscal 2013 includes approximately \$92.4 million (\$0.86 per diluted share) of after-tax gains from the sale of investment securities and approximately \$2.6 million (\$0.02 per diluted share) of after-tax gains from the sale of assets.

The following tables summarize operations by reportable operating segment for the three months ended June 30, 2014 and 2013. Operating statistics in the tables exclude the effects of offshore platform and international management contracts, and do not include reimbursements of out-of-pocket expenses in revenue, expense and margin per day calculations. Per day calculations for international operations also exclude gains and losses from translation of foreign currency transactions. Segment operating income is described in detail in Note 11 to the Consolidated Condensed Financial Statements.

Table of Contents

	Three Months Ended June 30,	
	2014	2013
(in thousands, except days and per day amounts)		
<b>U.S. LAND OPERATIONS</b>		
Revenues	\$ 802,279	\$ 695,816
Direct operating expenses	408,990	348,850
General and administrative expense	9,548	9,284
Depreciation	112,639	101,294
Segment operating income	\$ 271,102	\$ 236,388
Revenue days	26,062	22,510
Average rig revenue per day	\$ 28,126	\$ 28,160
Average rig expense per day	\$ 13,035	\$ 12,746
Average rig margin per day	\$ 15,091	\$ 15,414
Rig utilization	88%	83%

U.S. Land segment operating income increased to \$271.1 million for the third quarter of fiscal 2014 compared to \$236.4 million in the same period of fiscal 2013. Revenues were \$802.3 million and \$695.8 million in the third quarter of fiscal 2014 and 2013, respectively. Included in U.S. land revenues for the three months ended June 30, 2014 and 2013 are reimbursements for out-of-pocket expenses of \$69.3 million and \$61.9 million, respectively.

Segment operating income increased in the comparable quarters due to an increase in revenue days, partially offset by a decline in average margin per day. U.S. land rig utilization increased to 88 percent for the third quarter of fiscal 2014 compared to 83 percent for the third quarter of fiscal 2013. U.S. land rig revenue days for the third quarter of fiscal 2014 were 26,062 compared with 22,510 for the same period of fiscal 2013, with an average of 286.4 and 247.4 rigs working during the third quarter of fiscal 2014 and 2013, respectively.

At June 30, 2014, 289 out of 331 existing rigs in the U.S. Land segment were contracted. Of the 289 contracted rigs, 170 were under fixed term contracts and 119 were working in the spot market. At July 31, 2014, the number of existing rigs under fixed term contracts in the segment increased to 178 and the number of rigs working in the spot market decreased to 114.

During the third quarter of fiscal 2014, two FlexRigs were transferred from the U.S. Land segment to the International Land segment. One of the rigs transferred was the first of ten FlexRigs scheduled to be transferred to the International Land segment and the remaining nine transfers will continue into fiscal 2015.

	Three Months Ended June 30,	
	2014	2013
(in thousands, except days and per day amounts)		
<b>OFFSHORE OPERATIONS</b>		
Revenues	\$ 64,554	\$ 53,859
Direct operating expenses	42,446	33,961
General and administrative expense	2,264	2,214
Depreciation	2,848	3,562
Segment operating income	\$ 16,996	\$ 14,122
Revenue days	728	728
Average rig revenue per day	\$ 64,019	\$ 61,380



## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

Average rig expense per day	\$	39,716	\$	36,272
Average rig margin per day	\$	24,303	\$	25,108
Rig utilization		89%		89%

Offshore revenues include reimbursements for out-of-pocket expenses of \$5.4 million and \$4.0 million for the three months ended June 30, 2014 and 2013, respectively.

Revenue and segment operating income increased in the third quarter of fiscal 2014 compared to the third quarter of fiscal 2013 primarily due to our offshore management contracts.

At the end of both comparative periods, eight of our nine platform rigs were active. The ninth rig is currently under contract while undergoing upgrades with operations expected to commence by the end of the first quarter of fiscal 2015.

Table of Contents

	Three Months Ended June 30,	
	2014	2013
(in thousands, except days and per day amounts)		
<b>INTERNATIONAL LAND OPERATIONS</b>		
Revenues	\$ 81,267	\$ 86,978
Direct operating expenses	63,950	68,310
General and administrative expense	1,169	976
Depreciation	9,578	9,234
Segment operating income	\$ 6,570	\$ 8,458
Revenue days	2,024	2,132
Average rig revenue per day	\$ 35,454	\$ 35,955
Average rig expense per day	\$ 26,130	\$ 27,364
Average rig margin per day	\$ 9,324	\$ 8,591
Rig utilization	74%	80%

International Land segment operating income for the third quarter of fiscal 2014 was \$6.6 million compared to \$8.5 million in the same period of fiscal 2013. Included in International land revenues for the three months ended June 30, 2014 and 2013 are reimbursements for out-of-pocket expenses of \$9.5 million and \$10.3 million, respectively.

Revenue decreased primarily due to a decrease in rig utilization. During the current quarter, an average of 22.0 rigs worked compared to an average of 23.2 rigs in the third quarter of fiscal 2013. Segment operating income decreased primarily due to an increase in foreign currency exchange losses. Included in operating expense for the three months ended June 30, 2014 and 2013 are exchange losses of \$1.5 million and \$0.4 million, respectively.

During the third quarter of fiscal 2014, two FlexRigs were transferred to the International Land segment from the U.S. Land segment. One of the rigs transferred was the first of ten FlexRigs to be deployed to the International Land segment from the U.S. Land segment. The ten FlexRigs will work under five-year term drilling contracts. Drilling operations are expected to begin sequentially during the first quarter of fiscal 2015, with the ten rigs reaching full utilization by the end of the second quarter of fiscal 2015. The second FlexRig transferred is expected to begin operations in the fourth quarter of fiscal 2014. A new 3,000 horsepower AC drive rig is also scheduled to begin operations in the fourth quarter of fiscal 2014.

**RESEARCH AND DEVELOPMENT**

For the three months ended June 30, 2014 and 2013, we incurred \$3.9 million and \$4.4 million, respectively, of research and development expenses related to ongoing development of a rotary steerable system.

**OTHER**

General and administrative expenses were \$34.2 million in the third quarter of fiscal 2014 compared to \$31.1 million in the third quarter of fiscal 2013. The increase is primarily due to increases in salaries, bonus and stock-based compensation along with growth in the number of employees

in the comparative periods.

Income from the sale of investment securities was \$23.9 million in the third quarter of fiscal 2014 compared to \$153.4 million in the third quarter of fiscal 2013. In both periods, the income was attributable to the sale of available-for-sale securities.

Income tax expense decreased to \$102.8 million in the third quarter of fiscal 2014 from \$139.4 in the third quarter of fiscal 2013, primarily due to the gain on sale of investment securities decreasing in the comparable periods. We expect the effective tax rate for fiscal 2014 to be slightly over 35 percent.

**Nine Months Ended June 30, 2014 vs. Nine Months Ended June 30, 2013**

We reported net income from continuing operations of \$540.1 million (\$4.92 per diluted share) from operating revenues of \$2.7 billion for the nine months ended June 30, 2014, compared with net income from continuing operations of \$561.7 million (\$5.19 per diluted share) from operating revenues of \$2.5 billion for the first nine months of fiscal year 2013. For the first nine months of fiscal 2013, we had net income from discontinued operations of \$15.2 million (\$0.14 per diluted share). Including discontinued operations, we recorded net income of \$540.0 million (\$4.92 per diluted share) for the nine months ended June 30, 2014, compared to net income of \$576.8 million (\$5.33 per diluted share) for the nine months ended June 30, 2013. Net income for the first nine months of fiscal 2014 includes approximately \$27.8 million (\$0.25 per diluted share) of after-tax gains from the sale of investment securities and

Table of Contents

approximately \$7.7 million (\$0.07 per diluted share) of after-tax gains from the sale of assets. Net income for the first nine months of fiscal 2013 includes approximately \$97.9 million (\$0.91 per diluted share) of after-tax gains from the sale of investment securities and approximately \$9.4 million (\$0.08 per diluted share) of after-tax gains from the sale of assets.

The following tables summarize operations by reportable operating segment for the nine months ended June 30, 2014 and 2013. Operating statistics in the tables exclude the effects of offshore platform and international management contracts, and do not include reimbursements of out-of-pocket expenses in revenue, expense and margin per day calculations. Per day calculations for international operations also exclude gains and losses from translation of foreign currency transactions. Segment operating income is described in detail in Note 11 to the Consolidated Condensed Financial Statements.

	Nine Months Ended June 30,	
	2014	2013
(in thousands, except days and per day amounts)		
<b>U.S. LAND OPERATIONS</b>		
Revenues	\$ 2,275,744	\$ 2,077,556
Direct operating expenses	1,154,523	1,064,088
General and administrative expense	30,161	27,662
Depreciation	323,944	289,032
Segment operating income	\$ 767,116	\$ 696,774
Revenue days	73,826	66,100
Average rig revenue per day	\$ 28,205	\$ 28,152
Average rig expense per day	\$ 13,018	\$ 12,821
Average rig margin per day	\$ 15,187	\$ 15,331
Rig utilization	86%	82%

U.S. Land segment operating income increased to \$767.1 million for the first nine months of fiscal 2014 compared to \$696.8 million in the same period of fiscal 2013. Revenues were \$2.3 billion and \$2.1 billion for the first nine months of fiscal 2014 and 2013, respectively. Included in U.S. land revenues for the nine months ended June 30, 2014 and 2013 are reimbursements for out-of-pocket expenses of \$193.5 million and \$216.7 million, respectively. Also included in revenue for the nine months ended June 30, 2014 and 2013 are early termination fees of \$10.4 million and \$2.4 million, respectively. U.S. land rig revenue days for the first nine months of fiscal 2014 were 73,826 compared with 66,100 for the same period of fiscal 2013, with an average of 270.4 and 242.1 rigs working during the first nine months of fiscal 2014 and 2013, respectively.

Revenue and segment operating income increased in the comparable quarters primarily due to an increase in revenue days. U.S. land rig utilization increased to 86 percent for the first nine months of fiscal 2014 compared to 82 percent for the first nine months of fiscal 2013.

At June 30, 2014, 289 out of 331 existing rigs in the U.S. Land segment were contracted. Of the 289 contracted rigs, 170 were under fixed term contracts and 119 were working in the spot market. At July 31, 2014, the number of existing rigs under fixed term contracts in the segment increased to 178 and the number of rigs working in the spot market decreased to 114.

Nine Months Ended June 30,	
2014	2013

Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

(in thousands, except days and per day amounts)

<b>OFFSHORE OPERATIONS</b>			
Revenues	\$	186,884	\$ 167,182
Direct operating expenses		115,801	107,274
General and administrative expense		7,122	6,608
Depreciation		9,124	10,522
Segment operating income	\$	54,837	\$ 42,778
Revenue days		2,184	2,184
Average rig revenue per day	\$	63,515	\$ 61,289
Average rig expense per day	\$	37,044	\$ 36,043
Average rig margin per day	\$	26,471	\$ 25,246
Rig utilization		89%	89%

Offshore revenues include reimbursements for out-of-pocket expenses of \$13.1 million and \$16.4 million for the nine months ended June 30, 2014 and 2013, respectively.

Table of Contents

Revenue and segment operating income increased in the first nine months of fiscal 2014 compared to the same period of fiscal 2013 primarily due to an increase from our offshore management contracts.

At the end of both comparative periods, eight of our nine platform rigs were active. The ninth rig is currently under contract while undergoing upgrades with operations expected to commence early in fiscal 2015.

	Nine Months Ended June 30,	
	2014	2013
(in thousands, except days and per day amounts)		
<b>INTERNATIONAL LAND OPERATIONS</b>		
Revenues	\$ 262,141	\$ 268,337
Direct operating expenses	199,568	208,641
General and administrative expense	3,133	2,925
Depreciation	28,951	26,033
Segment operating income	\$ 30,489	\$ 30,738
Revenue days	6,212	6,392
Average rig revenue per day	\$ 37,025	\$ 37,294
Average rig expense per day	\$ 26,826	\$ 27,991
Average rig margin per day	\$ 10,199	\$ 9,303
Rig utilization	78%	81%

International Land segment operating income for the first nine months of fiscal 2014 was \$30.5 million compared to \$30.7 million in the same period of fiscal 2013. Included in International land revenues for the nine months ended June 30, 2014 and 2013 are reimbursements for out-of-pocket expenses of \$32.1 million and \$30.0 million, respectively. Also included in International land revenues for the nine months ended June 30, 2013 is approximately \$5.3 million related to early termination fees.

Excluding the \$5.3 million early termination fee in fiscal 2013, segment operating income increased primarily due to increases in average rig margins in locations where rig activity remained relatively constant during the two comparative periods. During the first nine months of fiscal 2014, an average of 22.8 rigs worked compared to an average of 23.4 rigs in the first nine months of fiscal 2013.

**RESEARCH AND DEVELOPMENT**

For the nine months ended June 30, 2014 and 2013, we incurred \$11.7 million and \$11.4 million, respectively, of research and development expenses related to ongoing development of a rotary steerable system.

**OTHER**

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

General and administrative expenses increased to \$100.9 million in the first nine months of fiscal 2014 from \$96.3 million in the first nine months of fiscal 2013. The increase is primarily due to increases in salaries, bonus and stock-based compensation along with growth in the number of employees in the comparative periods.

Income from the sale of investment securities was \$45.2 million in the first nine months of fiscal 2014 which was attributable to the sale of available-for-sale securities. Income from the sale of investment securities was \$162.1 million in the first nine months of fiscal 2013 which was attributable to the sale of available-for-sale securities and the sale of our share in three limited partnerships that were primarily invested in international equities.

Income tax expense decreased to \$293.4 million for the first nine months of fiscal 2014 from \$307.2 in the first nine months of fiscal 2013, primarily due to the gain on sale of investment securities decreasing in the comparable periods.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

## Liquidity

Cash and cash equivalents increased to \$549.9 million at June 30, 2014 from \$447.9 million at September 30, 2013. The following table provides a summary of cash flows:

	<b>Nine Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Net cash provided (used) by:		
Operating activities	\$ 797,895	\$ 761,643
Investing activities	(551,338)	(349,600)
Financing activities	(144,497)	(27,658)
Increase in cash and cash equivalents	\$ 102,060	\$ 384,385

## Operating activities

Cash flows from operating activities were approximately \$797.9 million for the nine months ended June 30, 2014 compared to approximately \$761.6 million for the same period ended June 30, 2013. Multiple items contributed to the change, including the effect of adjusting for non-cash items, for the comparative nine months.

## Investing activities

Capital expenditures during the nine months ended June 30, 2014 were \$622.0 million compared to \$618.6 million during the nine months ended June 30, 2013. Proceeds from the sale of investment securities were \$49.2 million and \$232.2 million for the nine months ended June 30, 2014 and 2013, respectively. The sales proceeds were from the sale of marketable equity available-for-sale securities in both years and the sale of three limited partnerships in fiscal 2013.

## Financing activities

On June 5, 2013, we announced a dividend increase to \$0.50 per share of common stock. On December 3, 2013, we announced a dividend increase to \$0.625 per share of common stock. The increases resulted in dividends paid of \$1.75 per share of common stock or \$189.5 million during the nine months ended June 30, 2014 compared to \$0.37 per share of common stock or \$39.5 million paid during the nine months ended



## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

June 30, 2013. Our dividend was increased again on June 4, 2014 to \$0.6875 per share.

### Other Liquidity

Funds generated by operating activities, available cash and cash equivalents, and our existing credit facility represent our significant sources of liquidity. Given current market conditions and general expectations, we believe these sources of liquidity will be sufficient to sustain operations and finance estimated capital expenditures, dividends and debt obligations during fiscal 2014. There can be no assurance that we will continue to generate cash flows at current levels or obtain additional financing. Our indebtedness totaled \$195.0 million at June 30, 2014, \$115.0 million of which is due during the fourth quarter of fiscal 2014. For additional information regarding debt agreements, refer to Note 8 of the Consolidated Condensed Financial Statements.

### Backlog

Our contract drilling backlog, being the expected future revenue from executed contracts with original terms in excess of one year, as of June 30, 2014 and September 30, 2013 was \$4.8 billion and \$2.9 billion, respectively. The increase in backlog at June 30, 2014 from September 30, 2013 is primarily due to the expected revenue from new multi-year contracts announced since October 1, 2013. Approximately 90.3 percent of the June 30, 2014 backlog is not reasonably expected to be filled in fiscal 2014. Term contracts customarily provide for termination at the election of the customer with an early termination payment to be paid to us if a contract is terminated prior to the expiration of the fixed term. However, under certain limited circumstances, such as destruction of a drilling rig, bankruptcy, sustained unacceptable performance by us, or delivery of a rig beyond certain grace and/or liquidated damage periods, no early termination payment would be paid to us. In addition, a portion of the backlog represents term contracts for new rigs that will be constructed in the future. We obtain certain key rig components from a single or limited number of vendors or fabricators. Certain of these vendors or fabricators are thinly capitalized independent companies located on the Texas Gulf Coast. Therefore, disruptions in rig component deliveries may occur. Accordingly, the actual amount of revenue earned may vary from the backlog reported. See the risk factors under Item 1A. Risk Factors of our 2013 Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission, regarding fixed term contract risk, operational risks, including weather, and vendors that are limited in number and thinly capitalized.

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

### Table of Contents

The following table sets forth the total backlog by reportable segment as of June 30, 2014 and September 30, 2013, and the percentage of the June 30, 2014 backlog not reasonably expected to be filled in fiscal 2014:

Reportable Segment	Three Months Ended		Percentage Not Reasonably Expected to be Filled in Fiscal 2014
	June 30, 2014	September 30, 2013	
	(in billions)		
U.S. Land	\$ 3.5	\$ 2.4	88.5%
Offshore	0.1	0.1	93.1%
International Land	1.2	0.4	95.3%
	\$ 4.8	\$ 2.9	

### Capital Resources

Since September 30, 2013, we have announced that we had secured multi-year term contracts to build and operate 74 new FlexRigs with 17 customers in the U.S. We expect to increase our construction cadence from three to four rigs per month beginning September 2014. During the nine months ended June 30, 2014, we placed into service 33 new FlexRigs. In addition, we completed a new 3,000 horsepower AC drive rig which is scheduled to begin operations in an international location in the fourth quarter of fiscal 2014. Four additional new FlexRigs under fixed term contract were placed into service by July 31, 2014. Like those completed and placed into service in prior fiscal periods, each of the 74 new FlexRigs is committed to work for an exploration and production company under a fixed term contract, performing drilling services on a daywork contract basis.

Our capital spending estimate for fiscal 2014 is expected to be slightly under our previous estimate of \$1.1 billion. However, the actual spending level may vary depending primarily on actual maintenance capital requirements and on the timing of procurement related to our ongoing newbuild efforts. Capital expenditures were \$622.0 million and \$618.6 million for the first nine months of fiscal 2014 and 2013, respectively.

There were no other significant changes in our financial position since September 30, 2013.

### **MATERIAL COMMITMENTS**

Material commitments as reported in our 2013 Annual Report on Form 10-K, as amended, has not changed significantly at June 30, 2014.

### **CRITICAL ACCOUNTING POLICIES**

Our accounting policies that are critical or the most important to understand our financial condition and results of operations and that require management to make the most difficult judgments are described in our 2013 Annual Report on Form 10-K, as amended. There have been no material changes in these critical accounting policies.

#### **RECENTLY ISSUED ACCOUNTING STANDARDS**

On October 1, 2013, we adopted ASU 2013-02, *Other Comprehensive Income*. ASU No. 2013-02 amended ASC 220, *Comprehensive Income*, and superseded and replaced ASU 2011-05, *Presentation of Comprehensive Income*, and ASU 2011-12, *Comprehensive Income*. The standard did not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the guidance does require an entity to provide enhanced disclosures to present separately by component reclassifications out of accumulated other comprehensive income. The adoption had no impact on the amount of OCI reported in the Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes virtually all existing revenue recognition guidance. The new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The provisions of ASU 2014-09 are effective for interim and annual periods beginning after December 15, 2016, and we have the option of using either a full retrospective or a modified retrospective approach when adopting this new standard. We are currently evaluating the alternative transition methods and the potential effects of the adoption of this update on our financial statements.

Table of Contents

PART I. FINANCIAL INFORMATION

June 30, 2014

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of our market risks, see

- Note 4 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to equity price risk is incorporated herein by reference;
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2013 Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission on November 27, 2013;
- Note 8 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to interest rate risk is incorporated herein by reference; and
- Note 13 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to foreign currency exchange rate risk is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was performed with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2014 at ensuring that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal controls over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

## Edgar Filing: HELMERICH & PAYNE INC - Form 10-Q

*Investigation by the U.S. Attorney.* On November 8, 2013, the United States District Court for the Eastern District of Louisiana approved the previously disclosed October 30, 2013 plea agreement between our wholly owned subsidiary, Helmerich & Payne International Drilling Co., and the United States Department of Justice, United States Attorney's Office for the Eastern District of Louisiana ( DOJ ). The court's approval of the plea agreement resolved the DOJ's investigation into certain choke manifold testing irregularities that occurred in 2010 at one of Helmerich & Payne International Drilling Co.'s offshore platform rigs in the Gulf of Mexico. We are engaged in discussions with the Inspector General's office of the Department of Interior regarding the same events that were the subject of the DOJ's investigation. Although we presently believe that the outcome of our discussions will not have a material adverse effect on the Company, we can provide no assurances as to the timing or eventual outcome of these discussions.

*Venezuela Expropriation.* Our wholly-owned subsidiaries, Helmerich & Payne International Drilling Co. and Helmerich & Payne de Venezuela, C.A. filed a lawsuit in the United States District Court for the District of Columbia on September 23, 2011 against the Bolivarian Republic of Venezuela, Petroleos de Venezuela, S.A. ( PDVSA ) and PDVSA Petroleo, S.A. ( Petroleo ). We are seeking damages for the taking of our Venezuelan drilling business in violation of international law and for breach of contract. While there exists the possibility of realizing a recovery, we are currently unable to determine the timing or amounts we may receive, if any, or the likelihood of recovery.

### ITEM 1A. RISK FACTORS

#### **International uncertainties and local laws could adversely affect our business.**

International operations are subject to certain political, economic and other uncertainties not encountered in U.S. operations, including increased risks of terrorism, kidnapping of employees, expropriation of drilling rigs, equipment, land and other property, as well as expropriation of a particular oil company's property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of our operations or on our ability to continue operations in certain areas.

Table of Contents

Because of the impact of local laws, our future operations in certain areas may be conducted through entities in which local citizens own interests and through entities (including joint ventures) in which we hold only a minority interest or pursuant to arrangements under which we conduct operations under contract to local entities. While we believe that neither operating through such entities nor pursuant to such arrangements would have a material adverse effect on our operations or revenues, there can be no assurance that we will in all cases be able to structure or restructure our operations to conform to local law (or the administration thereof) on terms acceptable to us.

Although we attempt to minimize the potential impact of such risks by operating in more than one geographical area, during the nine months ended June 30, 2014, approximately 10 percent of our consolidated operating revenues were generated from the international contract drilling business. During the nine months ended June 30, 2014, approximately 75 percent of the international operating revenues were from operations in South America.

**Other risk factors.**

Reference is made to the risk factors pertaining to the Company's securities portfolio and current backlog of contract drilling revenue in Item 1A of Part 1 of the Company's Form 10-K, as amended, for the year ended September 30, 2013. In order to update these risk factors for developments that have occurred during the first nine months of fiscal 2014, the risk factors are hereby amended and updated by reference to, and incorporation herein of Note 4 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof and Liquidity and Capital Resources - Backlog contained in Item 2 of Part I hereof.

Except as discussed above, there have been no material changes to the risk factors disclosed in Item 1A of Part 1 in our Form 10-K, as amended, for the year ended September 30, 2013.

**ITEM 5. OTHER INFORMATION**

On June 4, 2014, our Board of Directors approved an amendment to the Amended and Restated By-Laws of Helmerich & Payne, Inc. (the By-Laws). The By-Laws as so amended became effective June 4, 2014. Article II, Section 11 of the By-Laws provides, in part, the manner in which a stockholder may bring a matter before a stockholder meeting. Article II, Section 11 requires a stockholder to submit a notice to the Company containing certain information pertinent to the stockholder proposal or nomination of a director. The By-Laws have been amended by adding clause (vii) to Article II, Section 11(c). Clause (vii) provides that, as part of the stockholder's notice concerning the nomination of a director, the director nominee must represent and agree (on a form provided by the Company) that he or she (i) is not and will not become a party to any agreement, arrangement or understanding and has given no commitment as to how, if elected, such person will vote as a director (except as disclosed to the Company) and has no and will not have a voting commitment that might interfere with the director's fiduciary duties, (ii) is not and will not be a party to any agreement, arrangement or understanding to accept compensation (other than from the Company) in connection with his or her service as a director (except as disclosed to the Company), and (iii) will comply with all publicly disclosed corporate governance, confidentiality and other policies of the Company if elected. The foregoing description of the amendment to the By-Laws does not purport to be complete and is qualified in its entirety by reference to the By-Laws, as amended, that are attached as Exhibit 3.1 to the Company's Form 8-K/A filed with the Securities and Exchange Commission on June 9, 2014.



Table of Contents

## ITEM 6. EXHIBITS

The following documents are included as exhibits to this Form 10-Q. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed or furnished herewith.

Exhibit Number	Description
3.1	Amended and Restated By-Laws of Helmerich & Payne, Inc. (incorporated herein by reference to Exhibit 3.1 of the Company's Form 8-K/A filed on June 9, 2014, SEC File No. 001-04221).
10.2	Ninth Amendment to Office Lease dated June 16, 2014, between ASP, Inc. and Helmerich & Payne, Inc.
31.1	Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statements from the quarterly report on Form 10-Q of Helmerich & Payne, Inc. for the quarter ended June 30, 2014, filed on August 8, 2014, formatted in Extensive Business Reporting Language (XBRL): (i) the Consolidated Condensed Statements of Income, (ii) the Consolidated Condensed Statements of Comprehensive Income, (iii) the Consolidated Condensed Balance Sheets, (iv) the Consolidated Condensed Statements of Stockholders' Equity, (v) the Consolidated Condensed Statements of Cash Flows and (vi) the Notes to Consolidated Condensed Financial Statements.



Table of Contents

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.

**HELMERICH & PAYNE, INC.**  
(Registrant)

Date: August 8, 2014

By: /S/ JOHN W. LINDSAY  
John W. Lindsay, Chief Executive Officer

Date: August 8, 2014

By: /S/ JUAN PABLO TARDIO  
Juan Pablo Tardio, Chief Financial Officer  
(Principal Financial Officer)

Table of Contents

## EXHIBIT INDEX

The following documents are included as exhibits to this Form 10-Q. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed or furnished herewith.

Exhibit Number	Description
3.1	Amended and Restated By-Laws of Helmerich & Payne, Inc. (incorporated herein by reference to Exhibit 3.1 of the Company's Form 8-K/A filed on June 9, 2014, SEC File No. 001-04221).
10.2	Ninth Amendment to Office Lease dated June 16, 2014, between ASP, Inc. and Helmerich & Payne, Inc.
31.1	Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statements from the quarterly report on Form 10-Q of Helmerich & Payne, Inc. for the quarter ended June 30, 2014, filed on August 8, 2014, formatted in Extensive Business Reporting Language (XBRL): (i) the Consolidated Condensed Statements of Income, (ii) the Consolidated Condensed Statements of Comprehensive Income, (iii) the Consolidated Condensed Balance Sheets, (iv) the Consolidated Condensed Statements of Stockholders' Equity, (v) the Consolidated Condensed Statements of Cash Flows and (vi) the Notes to Consolidated Condensed Financial Statements.