

HELMERICH & PAYNE INC
Form 10-Q
August 07, 2015
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended: June 30, 2015

OR

o **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, 2015
107,751,484

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page No.
<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, 2015 and September 30, 2014</u>	3
<u>Consolidated Condensed Statements of Income for the Three and Nine Months Ended June 30, 2015 and 2014</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2015 and 2014</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended June 30, 2015 and 2014</u>	6
<u>Consolidated Condensed Statement of Shareholders' Equity for the Nine Months Ended June 30, 2015</u>	7
<u>Notes to Consolidated Condensed Financial Statements</u>	8-30
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31-39
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	40
<u>Item 4.</u>	
<u>Controls and Procedures</u>	40
<u>PART II.</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	40
<u>Item 1A.</u>	
<u>Risk Factors</u>	40-42
<u>Item 6.</u>	
<u>Exhibits</u>	43
<u>Signatures</u>	44

Table of Contents

PART I. FINANCIAL INFORMATION

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share and per share amounts)

ITEM 1. FINANCIAL STATEMENTS

	June 30, 2015	September 30, 2014 (as adjusted)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 770,918	\$ 360,909
Accounts receivable, less reserve of \$4,592 at June 30, 2015 and \$4,597 at September 30, 2014	490,224	705,214
Inventories	128,217	106,241
Deferred income taxes	9,183	16,519
Prepaid expenses and other	95,327	80,912
Current assets of discontinued operations	7,822	7,206
Total current assets	1,501,691	1,277,001
Investments	159,976	236,644
Property, plant and equipment, net	5,630,311	5,188,544
Other assets	43,839	18,809
Total assets	\$ 7,335,817	\$ 6,720,998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt due within one year less unamortized debt issuance costs	\$ 39,157	\$ 39,635
Accounts payable	128,670	182,031
Accrued liabilities	175,282	282,278
Current liabilities of discontinued operations	3,394	3,217
Total current liabilities	346,503	507,161
Noncurrent liabilities:		
Long-term debt less unamortized discount and debt issuance costs	532,388	39,502
Deferred income taxes	1,325,920	1,215,259
Other	105,069	64,110
Noncurrent liabilities of discontinued operations	4,428	3,989
Total noncurrent liabilities	1,967,805	1,322,860
Shareholders' equity:		
Common stock, \$.10 par value, 160,000,000 shares authorized, 110,858,097 shares and 110,508,605 shares issued as of June 30, 2015 and September 30, 2014, respectively and 107,656,628 shares and 108,232,284 shares outstanding as of June 30, 2015 and	11,086	11,051

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

September 30, 2014, respectively

Preferred stock, no par value, 1,000,000 shares authorized, no shares issued

Additional paid-in capital	409,159	383,972
Retained earnings	4,745,771	4,525,797
Accumulated other comprehensive income	36,962	83,126
Treasury stock, at cost	(181,469)	(112,969)
Total shareholders' equity	5,021,509	4,890,977

Total liabilities and shareholders' equity	\$	7,335,817	\$	6,720,998
--	----	-----------	----	-----------

The accompanying notes are an integral part of these statements.

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,	
	2015	2014	2015	2014
Operating revenues:				
Drilling U.S. Land	\$ 494,615	\$ 802,279	\$ 2,103,125	\$ 2,275,744
Drilling Offshore	55,673	64,554	187,772	186,884
Drilling International Land	106,198	81,267	297,305	262,141
Other	3,208	3,987	11,129	9,900
	659,694	952,087	2,599,331	2,734,669
Operating costs and other:				
Operating costs, excluding depreciation	351,670	515,239	1,375,241	1,469,454
Depreciation	144,295	128,978	431,616	373,178
General and administrative	29,404	34,222	97,213	100,896
Research and development	3,329	3,864	12,344	11,746
Income from asset sales	(1,784)	(2,128)	(8,854)	(11,890)
	526,914	680,175	1,907,560	1,943,384
Operating income from continuing operations	132,780	271,912	691,771	791,285
Other income (expense):				
Interest and dividend income	1,602	373	4,436	1,316
Interest expense	(6,258)	(1,435)	(9,290)	(4,354)
Gain from sale of investment securities		23,882		45,234
Other	(281)	346	88	(31)
	(4,937)	23,166	(4,766)	42,165
Income from continuing operations before income taxes	127,843	295,078	687,005	833,450
Income tax provision	36,956	102,788	243,525	293,389
Income from continuing operations	90,887	192,290	443,480	540,061
Income (loss) from discontinued operations before income taxes	(27)	(11)	(118)	2,775
Income tax provision			(77)	2,805
Income (loss) from discontinued operations	(27)	(11)	(41)	(30)
NET INCOME	\$ 90,860	\$ 192,279	\$ 443,439	\$ 540,031
Basic earnings per common share:				
Income from continuing operations	\$ 0.84	\$ 1.77	\$ 4.09	\$ 4.99
Income from discontinued operations				
Net income	\$ 0.84	\$ 1.77	\$ 4.09	\$ 4.99

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

Diluted earnings per common share:						
Income from continuing operations	\$	0.83	\$	1.75	\$	4.06
Income from discontinued operations					\$	4.92
Net income	\$	0.83	\$	1.75	\$	4.06
					\$	4.92
Weighted average shares outstanding:						
Basic		107,652		108,137		107,759
Diluted		108,469		109,285		108,571
						109,086
Dividends declared per common share	\$	0.6875	\$	0.6875	\$	2.0625
					\$	1.9375

The accompanying notes are an integral part of these statements.

Table of Contents

HELMERICH & 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,	
	2015	2014	2015	2014
Net income	\$ 90,860	\$ 192,279	\$ 443,439	\$ 540,031
Other comprehensive income (loss), net of income taxes:				
Unrealized appreciation (depreciation) on securities, net of income taxes of (\$2.1) million and (\$29.5) million at June 30, 2015 and \$5.3 million and \$1.0 million at June 30, 2014	(3,307)	13,728	(46,754)	7,215
Reclassification of realized gains in net income, net of income taxes of (\$9.0) million and (\$17.5) million at June 30, 2014		(14,853)		(27,737)
Minimum pension liability adjustments, net of income taxes of \$0.1 million and \$0.3 million at June 30, 2015 and \$0.1 million and \$0.3 million at June 30, 2014	197	145	590	437
Other comprehensive loss	(3,110)	(980)	(46,164)	(20,085)
Comprehensive income	\$ 87,750	\$ 191,299	\$ 397,275	\$ 519,946

The accompanying notes are an integral part of these statements.

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine Months Ended June 30,	
	2015	2014
OPERATING ACTIVITIES:		
Net income	\$ 443,439	\$ 540,031
Adjustment for loss from discontinued operations	41	30
Income from continuing operations	443,480	540,061
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	431,616	373,178
Amortization of debt discount and debt issuance costs	485	320
Provision for (recovery of) bad debt		(194)
Stock-based compensation	19,120	21,089
Pension settlement charge	1,200	
Other		1
Gain on sale of investment securities		(45,234)
Income from asset sales	(8,854)	(11,890)
Deferred income tax expense	146,864	28,665
Change in assets and liabilities:		
Accounts receivable	215,027	(84,173)
Inventories	(21,976)	(17,384)
Prepaid expenses and other	(39,445)	5,080
Accounts payable	(31,465)	(31,240)
Accrued liabilities	(49,831)	31,633
Deferred income taxes	287	(927)
Other noncurrent liabilities	41,072	(11,060)
Net cash provided by operating activities from continuing operations	1,147,580	797,925
Net cash used in operating activities from discontinued operations	(41)	(30)
Net cash provided by operating activities	1,147,539	797,895
INVESTING ACTIVITIES:		
Capital expenditures	(971,857)	(622,028)
Proceeds from sale of investment securities		49,205
Proceeds from asset sales	17,805	21,485
Net cash used in investing activities	(954,052)	(551,338)
FINANCING ACTIVITIES:		
Dividends paid	(223,827)	(189,542)
Repurchase of common stock	(59,654)	
Proceeds from senior notes, net of discount and debt issuance costs	491,923	
Proceeds on short-term debt	1,002	
Payments on short-term debt	(1,002)	
Net increase in bank overdraft	10,824	
Exercise of stock options, net of tax withholding	(609)	22,370
Tax withholdings related to net share settlements of restricted stock	(5,104)	(3,049)
Excess tax benefit from stock-based compensation	2,969	25,724

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

Net cash provided by (used in) financing activities	216,522	(144,497)
Net increase in cash and cash equivalents	410,009	102,060
Cash and cash equivalents, beginning of period	360,909	447,868
Cash and cash equivalents, end of period	\$ 770,918	\$ 549,928

The accompanying notes are an integral part of these statements.

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY

NINE MONTHS ENDED JUNE 30, 2015

(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, 2014	110,509	\$ 11,051	\$ 383,972	\$ 4,525,797	\$ 83,126	2,276	\$ (112,969)	\$ 4,890,977
Net income				443,439				443,439
Other comprehensive loss					(46,164)			(46,164)
Dividends declared (\$2.0625 per share)				(223,465)				(223,465)
Exercise of stock options, net of tax withholding	136	14	3,119			46	(3,742)	(609)
Tax benefit of stock-based awards			2,969					2,969
Stock issued for vested restricted stock, net of shares withheld for employee taxes	213	21	(21)			69	(5,104)	(5,104)
Repurchase of common stock						810	(59,654)	(59,654)
Stock-based compensation			19,120					19,120
Balance, June 30, 2015	110,858	\$ 11,086	\$ 409,159	\$ 4,745,771	\$ 36,962	3,201	\$ (181,469)	\$ 5,021,509

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 2014 Annual Report on Form 10-K 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.

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03 *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 amends the FASB Accounting Standards Codification (ASC) to require that debt issuance cost be presented in the balance sheet as a direct deduction from the carrying amount of the related liability. Prior to the amendment, debt issuance costs were reported in the balance sheet as an asset. The amended guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, however, we have elected to early adopt effective January 1, 2015. The election requires retrospective application and represents a change in accounting principle. The ASU provides that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. As a result of the adoption, the September 30, 2014 Consolidated Condensed Balance Sheet is restated as follows:

	Previously Reported	Effect of Accounting Principle Adoption (in thousands)	Adjusted
Consolidated Condensed Balance Sheet			
Prepaid expenses and other	\$ 81,277	\$ (365)	\$ 80,912
Total current assets	1,277,366	(365)	1,277,001
Other assets	19,307	(498)	18,809
Total assets	6,721,861	(863)	6,720,998
Long-term debt due within one year less unamortized discount and debt issuance costs	40,000	(365)	39,635
Total current liabilities	507,526	(365)	507,161
Long-term debt less unamortized discount and debt issuance costs	40,000	(498)	39,502

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

Total noncurrent liabilities	1,323,358	(498)	1,322,860
Total liabilities and shareholders' equity	6,721,861	(863)	6,720,998

Amortization of debt discount and debt issuance costs has been reclassified in the accompanying Consolidated Condensed Statements of Cash Flow for the nine months ended June 30, 2014 to conform to current year presentation. The amortization was previously included as a change in assets.

As more fully described in our 2014 Annual Report on Form 10-K, 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. During the three and nine months ended June 30, 2015, early termination revenue was approximately \$84.5 million and \$179.6 million, respectively. We had \$0.5 million and \$10.3 million, respectively, of early termination revenue for the three and nine months ended June 30, 2014.

Table of Contents

Depreciation in the Consolidated Condensed Statements of Income includes abandonments of \$1.3 million and \$13.5 million for the three and nine months ended June 30, 2015 compared to \$1.5 million and \$5.2 million for the three and nine months ended June 30, 2014. Effective March 31, 2015, we decommissioned all 17 of our SCR powered FlexRigs including 6 idle FlexRig1 rigs and 11 idle FlexRig2 rigs.

2. Discontinued Operations

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

3. Earnings per Share

ASC 260, *Earnings per Share*, requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividends 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 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,	
	2015	2014	2015	2014
(in thousands, except per share amounts)				
Numerator:				
Income from continuing operations	\$ 90,887	\$ 192,290	\$ 443,480	\$ 540,061
Loss from discontinued operations	(27)	(11)	(41)	(30)
Net income	90,860	192,279	443,439	540,031
Adjustment for basic earnings per share:				
Earnings allocated to unvested shareholders	(558)	(1,134)	(2,773)	(3,160)
Numerator for basic earnings per share:				
From continuing operations	90,329	191,156	440,707	536,901
From discontinued operations	(27)	(11)	(41)	(30)
	90,302	191,145	440,666	536,871
Adjustment for diluted earnings per share:				
Effect of reallocating undistributed earnings of unvested shareholders	1	7	10	25
Numerator for diluted earnings per share:				
From continuing operations	90,330	191,163	440,717	536,926
From discontinued operations	(27)	(11)	(41)	(30)
	\$ 90,303	\$ 191,152	\$ 440,676	\$ 536,896
Denominator:				
Denominator for basic earnings per share weighted-average shares	107,652	108,137	107,759	107,657
Effect of dilutive shares from stock options and restricted stock	817	1,148	812	1,429
Denominator for diluted earnings per share adjusted weighted-average shares	108,469	109,285	108,571	109,086
Basic earnings per common share:				
Income from continuing operations	\$ 0.84	\$ 1.77	\$ 4.09	\$ 4.99
Income from discontinued operations				
Net income	\$ 0.84	\$ 1.77	\$ 4.09	\$ 4.99
Diluted earnings per common share:				
Income from continuing operations	\$ 0.83	\$ 1.75	\$ 4.06	\$ 4.92
Income from discontinued operations				
Net income	\$ 0.83	\$ 1.75	\$ 4.06	\$ 4.92

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,	
	2015	2014	2015	2014
	(in thousands, except per share amounts)			
	592		667	256

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

Shares excluded from calculation of diluted
earnings per share

Weighted-average price per share	\$	73.36	\$		\$	72.85	\$	79.67
----------------------------------	----	-------	----	--	----	-------	----	-------

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 (in thousands)		Gross Unrealized Losses		Estimated Fair Value
Equity securities June 30, 2015	\$	64,462	\$	81,592	\$		\$ 146,054
Equity securities September 30, 2014	\$	64,462	\$	157,838	\$		\$ 222,300

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, marketable equity available-for-sale securities with a fair value at the date of sale of \$25.9 million and \$49.2 million, respectively, were sold. The gross realized gain on such sales of available-for-sale securities totaled \$23.9 million and \$45.2 million, respectively. We had no sales of marketable equity available-for-sale securities during the three and nine months ended June 30, 2015.

The assets held in the Non-qualified Supplemental Savings Plan are carried at fair value which totaled \$13.9 million at June 30, 2015 and \$14.3 million at September 30, 2014. The assets are comprised of mutual funds that are measured using Level 1 inputs.

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.
- 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, 2015, our financial instruments utilizing Level 1 inputs include cash equivalents, equity securities with active markets, 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, 2015, 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.

Table of Contents

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, 2015:

	Total Measure at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Assets:				
Cash and cash equivalents	\$ 770,918	\$ 770,918	\$	\$
Equity securities	146,054	146,054		
Other current assets	36,443	36,193	250	
Other assets	2,000	2,000		
Total assets measured at fair value	\$ 955,415	\$ 955,165	\$ 250	\$

The following information presents the supplemental fair value information about long-term fixed-rate debt at June 30, 2015 and September 30, 2014:

	June 30, 2015	September 30, 2014 (as adjusted)
(in millions)		
Carrying value of long-term fixed-rate debt	\$ 571.5	\$ 79.0
Fair value of long-term fixed-rate debt	\$ 592.5	\$ 84.3

The fair value at June 30, 2015 for the \$80 million fixed-rate debt was estimated using discounted cash flows at rates reflecting current interest rates at similar maturities plus a credit spread which was estimated using the outstanding market information on debt instruments with a similar credit profile to us. The debt was valued using a Level 2 input.

The fair value for the \$500 million fixed-rate debt was based on broker quotes at June 30, 2015. The notes are classified within Level 2 as they are not actively traded in markets.

5. Shareholders Equity

The Company has authorization from the Board of Directors for the repurchase of up to four million shares per calendar year. The repurchases may be made using our cash and cash equivalents or other available sources. During the nine months ended June 30, 2015, we purchased 810,097 common shares at an aggregate cost of \$59.7 million, which are held as treasury shares. We had no purchases of common shares in fiscal 2014.

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

Components of accumulated other comprehensive income (loss) were as follows:

	June 30, 2015	September 30, 2014
	(in thousands)	
Pre-tax amounts:		
Unrealized appreciation on securities	\$ 81,592	\$ 157,838
Unrecognized actuarial loss	(22,477)	(23,405)
	\$ 59,115	\$ 134,433
After-tax amounts:		
Unrealized appreciation on securities	\$ 50,664	\$ 97,418
Unrecognized actuarial loss	(13,702)	(14,292)
	\$ 36,962	\$ 83,126

Table of Contents

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, 2015:

	Three Months Ended June 30, 2015		
	Unrealized Appreciation (Depreciation) on Available-for-sale Securities	Defined Benefit Pension Plan (in thousands)	Total
Balances at April 1, 2015	\$ 53,971	\$ (13,899)	\$ 40,072
Other comprehensive loss before reclassifications	(3,307)		(3,307)
Amounts reclassified from accumulated other comprehensive income (loss)		197	197
Net current-period other comprehensive income (loss)	(3,307)	197	(3,110)
Balances at June 30, 2015	\$ 50,664	\$ (13,702)	\$ 36,962

	Nine Months Ended June 30, 2015		
	Unrealized Appreciation (Depreciation) on Available-for-sale Securities	Defined Benefit Pension Plan (in thousands)	Total
Balances at October 1, 2014	\$ 97,418	\$ (14,292)	\$ 83,126
Other comprehensive loss before reclassifications	(46,754)		(46,754)
Amounts reclassified from accumulated other comprehensive income (loss)		590	590
Net current-period other comprehensive income (loss)	(46,754)	590	(46,164)
Balances at June 30, 2015	\$ 50,664	\$ (13,702)	\$ 36,962

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, 2015:

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		Nine Months Ended		
	June 30,		June 30,		
	2015	2014	2015	2014	
	(in thousands)		(in thousands)		
Unrealized gains on available-for-sale securities	\$	\$ (23,882)	\$	\$ (45,234)	Gain on sale of investment securities
		9,029		17,497	Income tax provision
	\$	\$ (14,853)	\$	\$ (27,737)	Net of tax
Defined Benefit Pension Items					
Amortization of net actuarial loss	\$	309	\$	228	General and administrative
				927	
				686	

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

	(112)	(83)	(337)	(249)	Income tax provision
	\$ 197	\$ 145	\$ 590	\$ 437	Net of tax
Total reclassifications for the period	\$ 197	\$ (14,708)	\$ 590	\$ (27,300)	

6. Cash Dividends

The \$0.6875 per share cash dividend declared March 4, 2015, was paid June 1, 2015. On June 3, 2015, a cash dividend of \$0.6875 per share was declared for shareholders of record on August 14, 2015, payable September 1, 2015. The dividend payable is included in accounts payable in the Consolidated Condensed Balance Sheet.

Table of Contents

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 419,585 non-qualified stock options and 275,250 shares of restricted stock awards granted in the nine months ended June 30, 2015. 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:

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2015	2014		2015	2014	
	(in thousands)			(in thousands)		
Compensation expense						
Stock options	\$	1,930	\$	3,758	\$	6,900
Restricted stock		4,111		4,527		12,220
	\$	6,041	\$	8,285	\$	19,120
						21,089

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, 2015 and 2014:

	2015	2014
Risk-free interest rate	1.7%	1.6%
Expected stock volatility	36.9%	52.6%
Dividend yield	3.9%	3.1%
Expected term (in years)	5.5	5.5

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.

Table of Contents

A summary of stock option activity under all existing long-term incentive plans for the three and nine months ended June 30, 2015 is presented in the following tables:

Options	Shares (in thousands)	Three Months Ended June 30, 2015		
		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at April 1, 2015	2,909	\$ 47.91		
Granted				
Exercised	(12)	39.06		
Forfeited/Expired				
Outstanding at June 30, 2015	2,897	\$ 47.94	5.4	\$ 67.4
Vested and expected to vest at June 30, 2015	2,890	\$ 47.90	5.4	\$ 67.4
Exercisable at June 30, 2015	2,135	\$ 41.23	4.3	\$ 63.2

Options	Shares (in thousands)	Nine Months Ended June 30, 2015	
		Weighted-Average Exercise Price	
Outstanding at October 1, 2014	2,629	\$ 43.46	
Granted	420	68.83	
Exercised	(136)	23.11	
Forfeited/Expired	(16)	68.46	
Outstanding at June 30, 2015	2,897	\$ 47.94	

The weighted-average fair value of options granted in the first quarter of fiscal 2015 was \$16.39. No options were granted in the second and third quarters of fiscal 2015.

The total intrinsic value of options exercised during the three and nine months ended June 30, 2015 was \$0.4 million and \$7.6 million, respectively.

As of June 30, 2015, the unrecognized compensation cost related to stock options was \$7.2 million which is expected to be recognized over a weighted-average period of 2.6 years.

RESTRICTED STOCK

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

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, 2015, there was \$25.5 million of total unrecognized compensation cost related to unvested restricted stock awards which is expected to be recognized over a weighted-average period of 2.4 years.

Table of Contents

A summary of the status of our restricted stock awards as of June 30, 2015 and changes in restricted stock outstanding during the nine months then ended is presented below:

Restricted Stock Awards	Shares (in thousands)	Nine Months Ended June 30, 2015	
			Weighted- Average Grant-Date Fair Value
Unvested at October 1, 2014	634	\$	64.03
Granted	275		68.83
Vested (1)	(214)		54.18
Forfeited	(21)		62.70
Unvested at June 30, 2015	674	\$	67.04

(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, 2015 and September 30, 2014, we had the following unsecured long-term debt outstanding:

	Principal		Unamortized Discount and Debt Issuance Costs	
	June 30, 2015	September 30, 2014 (in thousands)	June 30, 2015	September 30, 2014
Unsecured senior notes issued July 21, 2009:				
Due July 21, 2015	\$ 40,000	\$ 40,000	\$ 77	\$ 141
Due July 21, 2016	40,000	40,000	78	141
Unsecured revolving credit facility issued May 25, 2012			416	581
Unsecured senior notes issued March 19, 2015:				
Due March 19, 2025	500,000		7,884	
	580,000	80,000	8,455	863
Less long-term debt due within one year	40,000	40,000	843	365
Long-term debt	\$ 540,000	\$ 40,000	\$ 7,612	\$ 498

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

We have \$80 million senior unsecured fixed-rate notes outstanding at June 30, 2015 that mature over a period from July 2015 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 July 2015 and July 2016. Subsequent to June 30, 2015, we paid the \$40 million due July 21, 2015. 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.

On March 19, 2015, we issued \$500 million of 4.65 percent 10-year unsecured senior notes. The net proceeds, after discount and issuance cost, will be used for general corporate purposes, including capital expenditures associated with our rig construction program. Interest is payable semi-annually on March 15 and September 15 each year, commencing on September 15, 2015. The debt discount is being amortized to interest expense using the effective interest method. The debt issuance costs are amortized straight-line over the stated life of the obligation, which approximates the effective yield method.

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. The majority of borrowings under the facility would accrue interest at a spread over the London Interbank Offered Rate (LIBOR). We 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, 2015, 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

Table of Contents

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, 2015, we were in compliance with all debt covenants. As of June 30, 2015, there were no specific borrowings against the line, but there were three letters of credit outstanding in the amount of \$48.2 million. At June 30, 2015, we had \$251.8 million available to borrow under our \$300 million unsecured credit facility. One of the three outstanding letters of credit is a \$21 million letter that supports an overdraft facility with a bank in an international location. Any short-term borrowing under this facility will be in the local currency with an interest rate that adjusts monthly based on local market rates. Given local currency considerations, the corresponding annual interest rates approach 30 percent.

At June 30, 2015, 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 2015 and 2014 was 35.4 percent and 35.2 percent, respectively. Our effective tax rate for the three months ended June 30, 2015 and 2014 was 28.9 percent and 34.8 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. The effective tax rate for the nine months ended June 30, 2015 was also impacted by a December 2014 tax law change which resulted in a reduction of the fiscal 2014 Internal Revenue Code Section 199 deduction for domestic production activities. In addition, the effective tax rate for the three months ended June 30, 2015 was impacted by a reduction in the deferred state income tax rate.

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 do not expect the increases or decreases to have a material effect on results of operations or financial position. We provided for uncertain tax positions of \$7.2 million, including interest and penalties, during the nine months ended June 30, 2015 related to the previous disclosure of a possible increase in the reserve for uncertain tax positions of approximately \$8.4 million to \$11.0 million due to international tax matters.

10. Commitments and Contingencies

In conjunction with our current drilling rig construction program, purchase commitments for equipment, parts and supplies of approximately \$140.2 million are outstanding at June 30, 2015.

Other than the matters described below, the Company is a party to various pending legal actions arising in the ordinary course of its business. 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.

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

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 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

Table of Contents

2010 at one of Helmerich & Payne International Drilling Co.'s offshore platform rigs in the Gulf of Mexico. We have been 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. We can provide no assurances as to the timing or eventual outcome of these discussions and are unable to determine the amount of penalty, if any, that may be assessed. However, we presently believe that the outcome of our discussions will not have a material adverse effect on the Company.

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 and Middle Eastern 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

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

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

Table of Contents

Summarized financial information of our reportable segments for the nine months ended June 30, 2015 and 2014 is shown in the following tables:

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2015				
Contract Drilling:				
U.S. Land	\$ 2,103,125	\$	\$ 2,103,125	\$ 664,722
Offshore	187,772		187,772	55,269
International Land	297,305		297,305	35,212
	2,588,202		2,588,202	755,203
Other	11,129	660	11,789	(7,440)
	2,599,331	660	2,599,991	747,763
Eliminations		(660)	(660)	
Total	\$ 2,599,331	\$	\$ 2,599,331	\$ 747,763

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2014				
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

Summarized financial information of our reportable segments for the three months ended June 30, 2015 and 2014 is shown in the following tables:

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2015				
Contract Drilling:				
U.S. Land	\$ 494,615	\$	\$ 494,615	\$ 121,734
Offshore	55,673		55,673	14,716
International Land	106,198		106,198	16,670
	656,486		656,486	153,120
Other	3,208	204	3,412	(2,324)
	659,694	204	659,898	150,796
Eliminations		(204)	(204)	
Total	\$ 659,694	\$	\$ 659,694	\$ 150,796

Table of Contents

(in thousands)	External Sales	Inter- Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2014				
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

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,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Segment operating income	\$ 150,796	\$ 293,178	\$ 747,763	\$ 845,703
Income from asset sales	1,784	2,128	8,854	11,890
Corporate general and administrative costs and corporate depreciation	(19,800)	(23,394)	(64,846)	(66,308)
Operating income	132,780	271,912	691,771	791,285
Other income (expense):				
Interest and dividend income	1,602	373	4,436	1,316
Interest expense	(6,258)	(1,435)	(9,290)	(4,354)
Gain on sale of investment securities		23,882		45,234
Other	(281)	346	88	(31)
Total other income (expense)	(4,937)	23,166	(4,766)	42,165
Income from continuing operations before income taxes	\$ 127,843	\$ 295,078	\$ 687,005	\$ 833,450

The following table presents total assets by reportable segment:

	June 30, 2015	September 30, 2014 (as adjusted)
	(in thousands)	
Total assets		
U.S. Land	\$ 5,398,402	\$ 5,259,947
Offshore	127,253	137,101
International Land	716,549	589,968
Other	39,116	40,080
	6,281,320	6,027,096

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

Investments and corporate operations	1,046,675	686,696
Total assets from continued operations	7,327,995	6,713,792
Discontinued operations	7,822	7,206
	\$ 7,335,817	\$ 6,720,998

Table of Contents

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,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Operating revenues				
United States	\$ 547,043	\$ 864,833	\$ 2,281,961	\$ 2,454,299
Argentina	54,784	26,468	119,347	79,522
Colombia	18,100	16,953	64,454	64,747
Ecuador	7,242	17,293	28,856	51,915
Other foreign	32,525	26,540	104,713	84,186
Total	\$ 659,694	\$ 952,087	\$ 2,599,331	\$ 2,734,669

12. Pensions and Other Post-retirement Benefits

The following provides information at June 30, 2015 and 2014 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,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Interest cost	\$ 1,171	\$ 1,201	\$ 3,513	\$ 3,603
Expected return on plan assets	(1,743)	(1,664)	(5,229)	(4,992)
Recognized net actuarial loss	309	228	927	686
Settlement	1,200		1,200	
Net pension expense (benefit)	\$ 937	\$ (235)	\$ 411	\$ (703)

Employer Contributions

We contributed \$2.0 million to the Pension Plan during the nine months ended June 30, 2015. We could make contributions for the remainder of fiscal 2015 to fund distributions in lieu of liquidating assets.

13. Supplemental Cash Flow Information

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

Capital expenditures on the Consolidated Condensed Statements of Cash Flows do not include additions which have been incurred but not paid for as of the end of the period. The following table reconciles total capital expenditures incurred to total capital expenditures in the Consolidated Condensed Statements of Cash Flows:

		Nine Months Ended June 30, 2015		2014
			(in thousands)	
Capital expenditures incurred	\$	882,334	\$	650,329
Additions incurred prior year but paid for in current period		123,548		29,264
Additions incurred but not paid for as of the end of the period		(34,025)		(57,565)
Capital expenditures per Consolidated Condensed Statements of Cash Flows	\$	971,857	\$	622,028

14. 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 our customer'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

Table of Contents

conducted. In January 2015, the Venezuelan government announced plans for a new foreign currency exchange system. We are monitoring the status of this change in Venezuela's exchange control policy. 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.

15. Recently Issued Accounting Standards

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, 2017, 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.

16. Guarantor and Non-Guarantor Financial Information

In March 2015, Helmerich & Payne International Drilling Co. (the issuer), a wholly-owned subsidiary of Helmerich & Payne, Inc. (parent, the guarantor), issued senior unsecured notes with an aggregate principal amount of \$500.0 million. The notes are fully and unconditionally guaranteed by the parent. No subsidiaries of parent currently guarantee the notes, subject to certain provisions that if any subsidiary guarantees certain other debt of the issuer or parent, then such subsidiary will provide a guarantee of the obligations under the notes.

In connection with the notes, we are providing the following condensed consolidating financial information in accordance with the Commission disclosure requirements. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements. Condensed consolidating financial information for the issuer, Helmerich & Payne International Drilling Co. and parent/guarantor, Helmerich & Payne, Inc. is shown in the tables below.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(in thousands)

	Three Months Ended June 30, 2015				
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
Operating revenue	\$	\$ 543,834	\$ 115,879	\$ (19)	\$ 659,694
Operating costs and other	3,072	423,408	101,460	(1,026)	526,914
	(3,072)	120,426	14,419	1,007	132,780

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

Operating income (loss) from continuing operations									
Other income (expense), net	(103)	1,565	866	(1,007)	1,321				
Interest expense	(40)	(4,638)	(1,580)		(6,258)				
Equity in net income of subsidiaries	92,401	12,965		(105,366)					
Income from continuing operations before income taxes	89,186	130,318	13,705	(105,366)	127,843				
Income tax provision	(1,674)	38,878	(248)		36,956				
Income from continuing operations	90,860	91,440	13,953	(105,366)	90,887				
Loss from discontinued operations before income taxes			(27)		(27)				
Income tax provision									
Loss from discontinued operations			(27)		(27)				
Net income	\$ 90,860	\$ 91,440	\$ 13,926	\$ (105,366)	\$ 90,860				

Table of Contents**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

	Three Months Ended June 30, 2015					
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated	
Net income	\$ 90,860	\$ 91,440	\$ 13,926	\$ (105,366)	\$ 90,860	
Other comprehensive income (loss), net of income taxes:						
Unrealized depreciation on securities, net		(3,307)			(3,307)	
Minimum pension liability adjustments, net	82	115			197	
Other comprehensive income (loss)	82	(3,192)			(3,110)	
Comprehensive income	\$ 90,942	\$ 88,248	\$ 13,926	\$ (105,366)	\$ 87,750	

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(in thousands)

	Three Months Ended June 30, 2014					
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated	
Operating revenue	\$	\$ 860,869	\$ 91,259	\$ (41)	\$ 952,087	
Operating costs and other	4,457	590,021	86,781	(1,084)	680,175	
Operating income (loss) from continuing operations	(4,457)	270,848	4,478	1,043	271,912	
Other income, net	25	24,646	973	(1,043)	24,601	
Interest expense	(2)	(1,084)	(349)		(1,435)	
Equity in net income of subsidiaries	194,849	2,717		(197,566)		
Income from continuing operations before income taxes	190,415	297,127	5,102	(197,566)	295,078	
Income tax provision	(1,864)	103,367	1,285		102,788	
Income from continuing operations	192,279	193,760	3,817	(197,566)	192,290	
Loss from discontinued operations before income taxes			(11)		(11)	
Income tax provision						
Loss from discontinued operations			(11)		(11)	
Net income	\$ 192,279	\$ 193,760	\$ 3,806	\$ (197,566)	\$ 192,279	

Table of Contents**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

	Three Months Ended June 30, 2014				Total Consolidated
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	
Net income	\$ 192,279	\$ 193,760	\$ 3,806	\$ (197,566)	\$ 192,279
Other comprehensive income (loss), net of income taxes:					
Unrealized appreciation on securities, net		13,728			13,728
Reclassification of realized gains in net income, net		(14,853)			(14,853)
Minimum pension liability adjustments, net	81	64			145
Other comprehensive income (loss)	81	(1,061)			(980)
Comprehensive income	\$ 192,360	\$ 192,699	\$ 3,806	\$ (197,566)	\$ 191,299

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(in thousands)

	Nine Months Ended June 30, 2015				Total Consolidated
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	
Operating revenue	\$	\$ 2,270,839	\$ 328,551	\$ (59)	\$ 2,599,331
Operating costs and other	9,152	1,600,530	300,970	(3,092)	1,907,560
Operating income (loss) from continuing operations	(9,152)	670,309	27,581	3,033	691,771
Other income (expense), net	(100)	6,224	1,433	(3,033)	4,524
Interest expense	(59)	(4,741)	(4,490)		(9,290)
Equity in net income of subsidiaries	448,894	18,406		(467,300)	
Income from continuing operations before income taxes	439,583	690,198	24,524	(467,300)	687,005
Income tax provision	(3,856)	243,844	3,537		243,525
Income from continuing operations	443,439	446,354	20,987	(467,300)	443,480
Loss from discontinued operations before income taxes			(118)		(118)
Income tax provision			(77)		(77)
Loss from discontinued operations			(41)		(41)
Net income	\$ 443,439	\$ 446,354	\$ 20,946	\$ (467,300)	\$ 443,439

Table of Contents**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

	Nine Months Ended June 30, 2015					
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated	
Net income	\$ 443,439	\$ 446,354	\$ 20,946	\$ (467,300)	\$ 443,439	
Other comprehensive income (loss), net of income taxes:						
Unrealized depreciation on securities, net		(46,754)			(46,754)	
Minimum pension liability adjustments, net	246	344			590	
Other comprehensive income (loss)	246	(46,410)			(46,164)	
Comprehensive income	\$ 443,685	\$ 399,944	\$ 20,946	\$ (467,300)	\$ 397,275	

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(in thousands)

	Nine Months Ended June 30, 2014					
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated	
Operating revenue	\$ 2,444,460	\$ 290,321	\$ (112)	\$ 2,734,669		
Operating costs and other	12,650	1,668,298	265,762	(3,326)	1,943,384	
Operating income (loss) from continuing operations	(12,650)	776,162	24,559	3,214	791,285	
Other income, net	42	47,562	2,129	(3,214)	46,519	
Interest expense	13	(3,023)	(1,344)		(4,354)	
Equity in net income of subsidiaries	547,685	10,056		(557,741)		
Income from continuing operations before income taxes	535,090	830,757	25,344	(557,741)	833,450	
Income tax provision	(4,941)	285,415	12,915		293,389	
Income from continuing operations	540,031	545,342	12,429	(557,741)	540,061	
Income from discontinued operations before income taxes			2,775		2,775	
Income tax provision			2,805		2,805	
Loss from discontinued operations			(30)		(30)	
Net income	\$ 540,031	\$ 545,342	\$ 12,399	\$ (557,741)	\$ 540,031	

[Table of Contents](#)
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Nine Months Ended June 30, 2014					
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated	
Net income	\$ 540,031	\$ 545,342	\$ 12,399	\$ (557,741)	\$ 540,031	
Other comprehensive income (loss), net of income taxes:						
Unrealized appreciation on securities, net		7,215			7,215	
Reclassification of realized gains in net income, net		(27,737)			(27,737)	
Minimum pension liability adjustments, net	244	193			437	
Other comprehensive income (loss)	244	(20,329)			(20,085)	
Comprehensive income	\$ 540,275	\$ 525,013	\$ 12,399	\$ (557,741)	\$ 519,946	

Table of Contents**CONSOLIDATED CONDENSED BALANCE SHEETS**

(in thousands)

	Guarantor/ Parent	Issuer Subsidiary	June 30, 2015 Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
<u>ASSETS</u>					
Current assets:					
Cash and cash equivalents	\$ (877)	\$ 755,070	\$ 17,183	\$ (458)	\$ 770,918
Accounts receivable, net of reserve	(15)	357,444	134,893	(2,098)	490,224
Inventories		87,022	40,552	643	128,217
Deferred income taxes	2,914	10,415		(4,146)	9,183
Prepaid expenses and other	11,291	27,669	54,642	1,725	95,327
Current assets of discontinued operations			7,822		7,822
Total current assets	13,313	1,237,620	255,092	(4,334)	1,501,691
Investments	13,922	146,054			159,976
Property, plant and equipment, net	52,639	5,064,369	513,303		5,630,311
Intercompany	14,599	1,419,552	230,985	(1,665,136)	
Other assets	6,775	1,352	42,253	(6,541)	43,839
Investment in subsidiaries	5,681,750	254,324		(5,936,074)	
Total assets	\$ 5,782,998	\$ 8,123,271	\$ 1,041,633	\$ (7,612,085)	\$ 7,335,817
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>					
Current liabilities:					
Long-term debt due within one year		39,157			39,157
Accounts payable	\$ 79,823	\$ 28,849	\$ 20,005	\$ (7)	\$ 128,670
Accrued liabilities	10,669	107,497	64,034	(6,918)	175,282
Current liabilities of discontinued operations			3,394		3,394
Total current liabilities	90,492	175,503	87,433	(6,925)	346,503
Noncurrent liabilities:					
Long-term debt		532,388			532,388
Deferred income taxes		1,282,174	61,626	(17,880)	1,325,920
Intercompany	653,760	446,954	550,492	(1,651,206)	
Other	17,237	22,193	65,639		105,069
Noncurrent liabilities of discontinued operations			4,428		4,428
Total noncurrent liabilities	670,997	2,283,709	682,185	(1,669,086)	1,967,805
Shareholders' equity:					
Common stock	11,086	100		(100)	11,086
Preferred stock					
Additional paid-in capital	409,159	45,033	344	(45,377)	409,159
Retained earnings	4,745,771	5,577,643	271,671	(5,849,314)	4,745,771
Accumulated other comprehensive income	36,962	41,283		(41,283)	36,962
Treasury stock, at cost	(181,469)				(181,469)

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

Total shareholders equity	5,021,509	5,664,059	272,015	(5,936,074)	5,021,509
Total liabilities and shareholders equity	\$ 5,782,998	\$ 8,123,271	\$ 1,041,633	\$ (7,612,085)	\$ 7,335,817

Table of Contents**CONSOLIDATED CONDENSED BALANCE SHEETS**

(in thousands)

	September 30, 2014, as adjusted					Total Consolidated
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations		
<u>ASSETS</u>						
Current assets:						
Cash and cash equivalents	\$ (2,050)	\$ 329,655	\$ 36,932	\$ (3,628)	\$	360,909
Accounts receivable, net of reserve	(31)	623,274	98,913	(16,942)		705,214
Inventories		67,113	37,358	1,770		106,241
Deferred income taxes	5,372	19,499		(8,352)		16,519
Prepaid expenses and other	8,863	15,013	56,982	54		80,912
Current assets of discontinued operations			7,206			7,206
Total current assets	12,154	1,054,554	237,391	(27,098)		1,277,001
Investments	14,344	222,300				236,644
Property, plant and equipment, net	42,027	4,681,294	465,223			5,188,544
Intercompany	14,855	782,626	196,641	(994,122)		
Other assets	8,110	1,197	16,123	(6,621)		18,809
Investment in subsidiaries	5,276,750	235,355		(5,512,105)		
Total assets	\$ 5,368,240	\$ 6,977,326	\$ 915,378	\$ (6,539,946)	\$	6,720,998
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>						
Current liabilities:						
Long-term debt due within one year		39,635				39,635
Accounts payable	\$ 80,562	\$ 80,488	\$ 20,988	\$ (7)	\$	182,031
Accrued liabilities	31,960	212,896	43,560	(6,138)		282,278
Current liabilities of discontinued operations			3,217			3,217
Total current liabilities	112,522	333,019	67,765	(6,145)		507,161
Noncurrent liabilities:						
Long-term debt		39,502				39,502
Deferred income taxes		1,182,192	47,640	(14,573)		1,215,259
Intercompany	346,545	141,066	519,512	(1,007,123)		
Other	18,196	19,948	25,966			64,110
Noncurrent liabilities of discontinued operations			3,989			3,989
Total noncurrent liabilities	364,741	1,382,708	597,107	(1,021,696)		1,322,860
Shareholders' equity:						
Common stock	11,051	100		(100)		11,051
Additional paid-in capital	383,972	42,516	319	(42,835)		383,972
Retained earnings	4,525,797	5,131,289	250,187	(5,381,476)		4,525,797
Accumulated other comprehensive income	83,126	87,694		(87,694)		83,126
Treasury stock, at cost	(112,969)					(112,969)
Total shareholders' equity	4,890,977	5,261,599	250,506	(5,512,105)		4,890,977

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

Total liabilities and shareholders equity	\$	5,368,240	\$	6,977,326	\$	915,378	\$	(6,539,946)	\$	6,720,998
---	----	-----------	----	-----------	----	---------	----	-------------	----	-----------

Table of Contents**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(in thousands)

	Nine Months Ended June 30, 2015					
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated	
Net cash provided by operating activities	\$ 66,448	\$ 1,068,214	\$ 9,707	\$ 3,170	\$ 1,147,539	
INVESTING ACTIVITIES:						
Capital expenditures	(18,708)	(911,844)	(41,305)		(971,857)	
Intercompany transfers	18,708	(18,708)				
Proceeds from asset sales	1	16,804	1,000		17,805	
Net cash provided by (used in) investing activities	1	(913,748)	(40,305)		(954,052)	
FINANCING ACTIVITIES:						
Dividends paid	(223,827)				(223,827)	
Intercompany transfers	223,827	(223,827)				
Repurchase of common stock	(59,654)				(59,654)	
Proceeds from senior notes, net of discount		491,923			491,923	
Proceeds on short-term debt			1,002		1,002	
Payments on short-term debt			(1,002)		(1,002)	
Net increase in bank overdraft			10,824		10,824	
Exercise of stock options, net of tax withholding	(609)				(609)	
Tax withholdings related to net share settlements of restricted stock	(5,104)				(5,104)	
Excess tax benefit from stock-based compensation	91	2,853	25		2,969	
Net cash provided by (used in) financing activities	(65,276)	270,949	10,849		216,522	
Net increase (decrease) in cash and cash equivalents	1,173	425,415	(19,749)	3,170	410,009	
Cash and cash equivalents, beginning of period	(2,050)	329,655	36,932	(3,628)	360,909	
Cash and cash equivalents, end of period	\$ (877)	\$ 755,070	\$ 17,183	\$ (458)	\$ 770,918	

Table of Contents**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(in thousands)

	Nine Months Ended June 30, 2014					
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated	
Net cash provided by (used in) operating activities	\$ (18,912)	\$ 753,008	59,665	\$ 4,134	\$ 797,895	
INVESTING ACTIVITIES:						
Capital expenditures	(13,281)	(539,439)	(69,308)		(622,028)	
Intercompany transfers	13,281	(13,281)				
Proceeds from sale of investment securities		49,205			49,205	
Proceeds from asset sales	3	18,976	2,506		21,485	
Net cash provided by (used in) investing activities	3	(484,539)	(66,802)		(551,338)	
FINANCING ACTIVITIES:						
Dividends paid	(189,542)				(189,542)	
Intercompany transfers	189,542	(189,542)				
Exercise of stock options, net of tax withholding	22,370				22,370	
Tax withholdings related to net share settlements of restricted stock	(3,049)				(3,049)	
Excess tax benefit from stock-based compensation	(1,205)	26,716	213		25,724	
Net cash provided by (used in) financing activities	18,116	(162,826)	213		(144,497)	
Net increase (decrease) in cash and cash equivalents	(793)	105,643	(6,924)	4,134	102,060	
Cash and cash equivalents, beginning of period	(202)	412,596	33,918	1,556	447,868	
Cash and cash equivalents, end of period	\$ (995)	\$ 518,239	\$ 26,994	\$ 5,690	\$ 549,928	

Table of Contents

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

June 30, 2015

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 2014 Annual Report on Form 10-K. 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 2014 Annual Report on Form 10-K 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, 2015 vs. Three Months Ended June 30, 2014

We reported net income of \$90.9 million (\$0.83 per diluted share) from operating revenues of \$659.7 million for the third quarter ended June 30, 2015, compared with net income from continuing operations of \$192.3 million (\$1.75 per diluted share) from operating revenues of \$952.1

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

million for the third quarter of fiscal year 2014. Net income for the third quarter of fiscal 2015 includes approximately \$1.3 million (\$0.01 per diluted share) of after-tax gains from the sale of assets. 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.

The following tables summarize operations by reportable operating segment for the three months ended June 30, 2015 and 2014. 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,			
	2015		2014	
	(in thousands, except days and per day amounts)			
U.S. LAND OPERATIONS				
Revenues	\$	494,615	\$	802,279
Direct operating expenses		241,109		408,990
General and administrative expense		10,465		9,548
Depreciation		121,307		112,639
Segment operating income	\$	121,734	\$	271,102
Revenue days		14,219		26,062
Average rig revenue per day	\$	31,959	\$	28,126
Average rig expense per day	\$	14,130	\$	13,035
Average rig margin per day	\$	17,829	\$	15,091
Rig utilization		47%		88%

U.S. Land segment operating income decreased to \$121.7 million for the third quarter of fiscal 2015 compared to \$271.1 million in the same period of fiscal 2014. Revenues were \$494.6 million and \$802.3 million in the third quarter of fiscal 2015 and 2014, respectively. Included in U.S. land revenues for the three months ended June 30, 2015 and 2014 are reimbursements for out-of-pocket expenses of \$40.2 million and \$69.3 million, respectively. Also included in revenue for the three months ended June 30, 2015 is early termination revenue of \$75.7 million compared to \$0.5 million during the same period of fiscal 2014.

Excluding early termination per day revenue of \$5,325 and \$19 for the three months ended June 30, 2015 and 2014, respectively, average rig revenue per day for the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014 decreased by \$1,473 to \$26,634. The decline in oil prices continued to have a negative effect on customer spending. Some customers did not renew expiring contracts while others elected to terminate fixed-term contracts early. As a result, we experienced a decrease in revenue days of 11,843 when comparing the third quarter of 2015 to the same period in 2014. Fixed-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 (except in limited circumstances including sustained unacceptable performance by us).

The average rig expense per day increased \$1,095 for the three months ended June 30, 2015 compared to the same period ended June 30, 2014. The increase is primarily the result of expenses incurred on idle rigs including property taxes and insurance as well as labor and other expenses associated with stacking rigs.

Depreciation increased \$8.7 million in the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014. Depreciation increased in the comparative periods due to the increase in available rigs as new FlexRigs were added to the segment in 2014 and 2015.

U.S. land rig utilization decreased to 47 percent for the third quarter of 2015 compared to 88 percent for the third quarter of fiscal 2014. U.S. land rig revenue days for the third quarter of fiscal 2015 were 14,219 compared with 26,062 for the same period of fiscal 2014, with an average of 156.3 and 286.4 rigs working during the third quarter of fiscal 2015 and 2014, respectively. We expect rig utilization to decrease in the fourth quarter of fiscal 2015 primarily due to rigs idled during the third quarter that are expected to remain idle throughout the fourth quarter.

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

At June 30, 2015, 153 out of 341 existing rigs in the U.S. Land segment were contracted. Of the 153 contracted rigs, 123 were under fixed term contracts and 30 were working in the spot market. As of July 30, 2015, 156 rigs remain contracted in the segment excluding rigs that are in the process of stacking. Based on received termination notices, early termination revenue is expected to be approximately \$3.5 million during the fourth fiscal quarter of 2015.

Table of Contents

	Three Months Ended June 30,			
	2015		2014	
	(in thousands, except days and per day amounts)			
OFFSHORE OPERATIONS				
Revenues	\$	55,673	\$	64,554
Direct operating expenses		37,580		42,446
General and administrative expense		688		2,264
Depreciation		2,689		2,848
Segment operating income	\$	14,716	\$	16,996
Revenue days		728		728
Average rig revenue per day	\$	38,333	\$	64,019
Average rig expense per day	\$	24,068	\$	39,716
Average rig margin per day	\$	14,265	\$	24,303
Rig utilization		89%		89%

Offshore revenues include reimbursements for out-of-pocket expenses of \$9.5 million and \$5.4 million for the three months ended June 30, 2015 and 2014, respectively.

Average rig revenue per day and average rig margin per day decreased in the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014 primarily due to several rigs moving to lower pricing while on standby or other special dayrates.

At the end of June 30, 2015 and June 30, 2014, eight platform rigs were active.

	Three Months Ended June 30,	
	2015	2014
	(in thousands, except days and per day amounts)	
INTERNATIONAL LAND OPERATIONS		
Revenues	\$ 106,198	\$ 81,267
Direct operating expenses	73,096	63,950
General and administrative expense	781	1,169
Depreciation	15,651	9,578
Segment operating income	\$ 16,670	\$ 6,570
Revenue days	1,887	2,024
Average rig revenue per day	\$ 51,673	\$ 35,454
Average rig expense per day	\$ 33,929	\$ 26,130
Average rig margin per day	\$ 17,744	\$ 9,324
Rig utilization	51%	74%

International Land segment operating income for the third quarter of fiscal 2015 was \$16.7 million compared to \$6.6 million in the same period of fiscal 2014. Included in International land revenues for the three months ended June 30, 2015 and 2014 are reimbursements for out-of-pocket expenses of \$8.7 million and \$9.5 million, respectively. Also included in revenue for the three months ended June 30, 2015 is early termination revenue of \$8.8 million.

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

Excluding early termination revenue of \$4,658, average rig revenue per day for the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014 increased by \$11,561 to \$47,015. Rigs transferred into the segment in previous quarters that have begun operations favorably impacted revenue and average rig revenue per day during the third quarter of fiscal 2015. Average rig expense per day increased due to those same rigs incurring startup costs and idle rigs incurring fixed costs while stacked. During the current quarter, an average of 20.5 rigs worked compared to an average of 22.0 rigs in the third quarter of fiscal 2014. We expect rig utilization to decrease in the fourth quarter of fiscal 2015 based on the number of rigs that have recently become idle. Based on received early termination notices, early termination revenue could exceed \$9.0 million during the fourth fiscal quarter of 2015.

RESEARCH AND DEVELOPMENT

For the three months ended June 30, 2015 and 2014, we incurred \$3.3 million and \$3.9 million, respectively, of research and development expenses related to ongoing development of a rotary steerable system.

Table of Contents**OTHER**

General and administrative expenses were \$29.4 million in the third quarter of fiscal 2015 compared to \$34.2 million in the third quarter of fiscal 2014. The decrease is primarily attributable to a decrease in current year employee compensation related accruals.

Income tax expense decreased to \$37.0 million in the third quarter of fiscal 2015 from \$102.8 in the third quarter of fiscal 2014, and the effective tax rate decreased to 28.9 percent from 34.8 percent. The effective tax rate for the three months ended June 30, 2015 was impacted by a reduction in the deferred state income tax rate. We expect the effective tax rate for the remaining quarter of fiscal 2015 to be approximately 34 percent.

Nine Months Ended June 30, 2015 vs. Nine Months Ended June 30, 2014

We reported net income of \$443.4 million (\$4.06 per diluted share) from operating revenues of \$2.6 billion for the nine months ended June 30, 2015, compared with net income from continuing operations of \$540.1 million (\$4.92 per diluted share) from operating revenues of \$2.7 billion for the first nine months of fiscal year 2014. Net income for the first nine months of fiscal 2015 includes approximately \$5.7 million (\$0.05 per diluted share) of after-tax gains from the sale of assets. 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 approximately \$7.7 million (\$0.07 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, 2015 and 2014. 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,			
	2015		2014	
	(in thousands, except days and per day amounts)			
U.S. LAND OPERATIONS				
Revenues	\$	2,103,125	\$	2,275,744
Direct operating expenses		1,034,724		1,154,523
General and administrative expense		34,785		30,161
Depreciation		368,894		323,944
Segment operating income	\$	664,722	\$	767,116
Revenue days		62,376		73,826
Average rig revenue per day	\$	30,538	\$	28,205
Average rig expense per day	\$	13,410	\$	13,018
Average rig margin per day	\$	17,128	\$	15,187
Rig utilization		68%		86%

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

U.S. Land segment operating income decreased to \$664.7 million for the first nine months of fiscal 2015 compared to \$767.1 million in the same period of fiscal 2014. Revenues were \$2.1 billion and \$2.3 billion for the first nine months of fiscal 2015 and 2014, respectively. Included in U.S. land revenues for the nine months ended June 30, 2015 and 2014 are reimbursements for out-of-pocket expenses of \$198.3 million and \$193.5 million, respectively. Also included in revenue for the nine months ended June 30, 2015 and 2014 are early termination fees of \$170.1 million and \$10.4 million, respectively.

Excluding early termination per day revenue of \$2,727 and \$141 for the first nine months of fiscal 2015 and 2014, respectively, average rig revenue per day in the first nine months of fiscal 2015 compared to the first nine months of fiscal 2014 decreased by \$253 to \$27,811. The decline in oil prices continued to have a negative effect on customer spending. Some customers did not renew expiring contracts while others elected to terminate fixed-term contracts early. As a result, we experienced a decrease in revenue days of 11,450 when comparing the first nine months of fiscal 2015 to the same period in 2014. Fixed-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 (except in limited circumstances including sustained unacceptable performance by us).

The average rig expense per day increased \$392 for the nine months ended June 30, 2015 compared to the same period ended June 30, 2014. The increase is primarily the result of expenses incurred on idle rigs including property taxes and insurance as well as labor and other expenses associated with stacking rigs.

Table of Contents

Depreciation increased \$45.0 million in the first nine months of fiscal 2015 compared to the first nine months of fiscal 2014. Included in depreciation are abandonments of \$13.0 million and \$4.5 million, respectively, for the nine months ended June 30, 2015 and 2014. Included in abandonments for the nine months ended June 30, 2015 is the decommissioning of all 17 of our SCR powered FlexRigs including 6 idle FlexRig1 rigs and 11 idle FlexRig2 rigs. With the continued downturn in the oil and gas industry, we believe when the demand for drilling rigs returns, our SCR powered FlexRigs will not meet the needs of our customers. Excluding abandonments, depreciation increased in the comparative periods due to the increase in available rigs as new FlexRigs were added to the segment in 2014 and 2015.

U.S. land rig utilization decreased to 68 percent for the first nine months of fiscal 2015 compared to 86 percent for the first nine months of fiscal 2014. U.S. land rig revenue days for the first nine months of fiscal 2015 were 62,376 compared with 73,826 for the same period of fiscal 2014, with an average of 228.5 and 270.4 rigs working during the first nine months of fiscal 2015 and 2014, respectively. We expect rig utilization to decrease in the fourth quarter of fiscal 2015 primarily due to rigs idled during the third quarter that are expected to remain idle throughout the fourth quarter.

At June 30, 2015, 153 out of 341 existing rigs in the U.S. Land segment were contracted. Of the 153 contracted rigs, 123 were under fixed term contracts and 30 were working in the spot market. As of July 30, 2015, 156 rigs remain contracted in the segment excluding rigs that are in the process of stacking. Based on received early termination notices, early termination revenue is expected to be approximately \$3.5 million during the fourth fiscal quarter of 2015.

	Nine Months Ended June 30,			
	2015		2014	
	(in thousands, except days and per day amounts)			
OFFSHORE OPERATIONS				
Revenues	\$	187,772	\$	186,884
Direct operating expenses		121,252		115,801
General and administrative expense		2,468		7,122
Depreciation		8,783		9,124
Segment operating income	\$	55,269	\$	54,837
Revenue days		2,331		2,184
Average rig revenue per day	\$	48,136	\$	63,515
Average rig expense per day	\$	30,126	\$	37,044
Average rig margin per day	\$	18,010	\$	26,471
Rig utilization		95%		89%

Offshore revenues include reimbursements for out-of-pocket expenses of \$20.2 million and \$13.1 million for the first nine months ended June 30, 2015 and 2014, respectively.

Total revenue and segment operating income in our Offshore segment increased in the first nine months of fiscal 2015 compared to the same period of fiscal 2014 primarily due to an increase in the number of offshore management contracts. Average rig revenue per day and average rig margin per day decreased in the first nine months of fiscal 2015 compared to the same period of fiscal 2014 primarily due to several rigs moving to lower pricing while on standby or other special dayrates.

At the end of June 30, 2015 and June 30, 2014, eight platform rigs were active.

Table of Contents

	Nine Months Ended June 30,			
	2015		2014	
	(in thousands, except days and per day amounts)			
INTERNATIONAL LAND OPERATIONS				
Revenues	\$	297,305	\$	262,141
Direct operating expenses		219,485		199,568
General and administrative expense		2,487		3,133
Depreciation		40,121		28,951
Segment operating income	\$	35,212	\$	30,489
Revenue days		5,809		6,212
Average rig revenue per day	\$	46,027	\$	37,025
Average rig expense per day	\$	32,952	\$	26,826
Average rig margin per day	\$	13,075	\$	10,199
Rig utilization		55%		78%

International Land segment operating income for the first nine months of fiscal 2015 was \$35.2 million compared to \$30.5 million in the same period of fiscal 2014. Included in International land revenues for the nine months ended June 30, 2015 and 2014 are reimbursements for out-of-pocket expenses of \$29.9 million and \$32.1 million, respectively. Also included in revenue for the nine months ended June 30, 2015 is early termination revenue of \$9.5 million.

Excluding early termination revenue of \$1,631, average rig revenue per day for the first nine months of fiscal 2015 compared to the same time for fiscal 2014 increased by \$7,371 to \$44,396. Rigs transferred into the segment in previous quarters that started work favorably impacted revenue and revenue per day. During the first nine months of fiscal 2015, an average of 21.3 rigs worked compared to an average of 22.8 rigs in the first nine months of fiscal 2014. During the first nine months of fiscal 2015, five FlexRigs were transferred from the U.S. Land segment and one conventional rig was transferred to the U.S. Land segment. The rigs transferred into the segment commenced operations at various times during fiscal 2015 which reduced the rig utilization in this segment. We expect rig utilization to decrease in the fourth quarter of fiscal 2015 based on the number of rigs that have recently become idle. Based on early termination notices received, early termination revenue could exceed \$9.0 million during the fourth fiscal quarter of 2015.

RESEARCH AND DEVELOPMENT

For the nine months ended June 30, 2015 and 2014, we incurred \$12.3 million and \$11.7 million, respectively, of research and development expenses related to ongoing development of a rotary steerable system.

OTHER

General and administrative expenses were \$97.2 million in the first nine months of fiscal 2015 compared to \$100.9 million in the first nine months of fiscal 2014.

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

Interest expense is expected to increase due to the issuance of \$500 million unsecured senior notes in March 2015. Total interest expense for fiscal 2015 is expected to be approximately \$15 million.

Income tax expense decreased to \$243.5 million in the first nine months of fiscal 2015 from \$293.4 in the first nine months of fiscal 2014 and the effective tax rate increased to 35.4 percent from 35.2 percent. 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. The effective tax rate for the nine months ended June 30, 2015 was also impacted by a December 2014 tax law change which resulted in a reduction of the fiscal 2014 Internal Revenue Code Section 199 deduction for domestic production activities.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

Liquidity

Cash and cash equivalents increased to \$770.9 million at June 30, 2015 from \$360.9 million at September 30, 2014. The following table provides a summary of cash flows:

	Nine Months Ended June 30,	
	2015	2014
	(in thousands)	
Net cash provided (used) by:		
Operating activities	\$ 1,147,539	\$ 797,895
Investing activities	(954,052)	(551,338)
Financing activities	216,522	(144,497)
Increase (decrease) in cash and cash equivalents	\$ 410,009	\$ 102,060

Operating activities

Cash flows from operating activities were approximately \$1.1 billion for the nine months ended June 30, 2015 compared to approximately \$797.9 million for the same period ended June 30, 2014. Multiple items contributed to the change, including a decrease in accounts receivable and income taxes payable during the comparative nine months primarily the result of legislation passed in December 2014 extending the 50 percent special allowance for depreciation (bonus depreciation) for qualified property placed in service during 2014.

Investing activities

Capital expenditures during the nine months ended June 30, 2015 were \$971.9 million compared to \$622.0 million during the nine months ended June 30, 2014 due to the execution of additional fixed-term contracts during calendar 2014 for the construction and operation of new FlexRigs.

Financing activities

During fiscal 2015, we received proceeds from senior notes net of discount and debt issuance costs of \$491.9 million. Dividends paid during the first nine months of fiscal 2015 were \$2.063 per share or \$223.8 million compared to \$1.750 per share or \$189.5 million paid during the first nine months of fiscal 2014. Also during fiscal 2015, we purchased 810,097 common shares at an aggregate cost of \$59.7 million.

Other Liquidity

Our operating cash requirements, scheduled debt repayments, interest payments, any stock repurchases and estimated capital expenditures, including our rig construction program, for the remainder of fiscal 2015 are expected to be funded through cash and cash provided from operating activities. Given current market conditions, there can be no assurance that we will continue to generate cash flows at current levels or obtain additional financing. Our indebtedness totaled \$571.5 million at June 30, 2015, of which a \$40.0 million scheduled principal payment was paid in July, 2015. 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, 2015 and September 30, 2014 was \$3.5 billion and \$5.0 billion, respectively. The decrease in backlog at June 30, 2015 from September 30, 2014 is primarily due to the revenue earned since September 30, 2014 and the expiration and termination of long-term contracts. Approximately 89.5 percent of the June 30, 2015 backlog is not reasonably expected to be filled in fiscal 2015. 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 resulting in construction delays and possibly termination of long-term contracts. Accordingly, the actual amount of revenue earned may vary from the backlog reported. See the risk factors under Item 1A. Risk Factors of our 2014 Annual Report on Form 10-K 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, 2015 and September 30, 2014, and the percentage of the June 30, 2015 backlog not reasonably expected to be filled in fiscal 2015:

Reportable Segment	Three Months Ended		Percentage Not Reasonably Expected to be Filled in Fiscal 2015
	June 30, 2015	September 30, 2014	
	(in billions)		
U.S. Land	\$ 2.6	\$ 3.8	88.8%
Offshore	0.1	0.1	90.2%
International Land	0.8	1.1	91.7%
	\$ 3.5	\$ 5.0	

Capital Resources

Since September 30, 2014, we have announced that we had secured multi-year term contracts to build and operate six new FlexRigs with two customers in the U.S. During the nine months ended June 30, 2015, we completed 33 new FlexRigs. One additional new FlexRig under fixed-term contract was completed by July 30, 2015. Like those completed and placed into service in prior fiscal periods, each of the 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 2015 is expected to total approximately \$1.3 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. We expect to complete 12 new FlexRigs between July 30, 2015 and the end of March 2016. All new FlexRigs scheduled for delivery during calendar 2015 and 2016 are supported with multi-year contracts. Capital expenditures were \$971.9 million and \$622.0 million for the first nine months of fiscal 2015 and 2014, respectively.

There were no other significant changes in our financial position since September 30, 2014.

MATERIAL COMMITMENTS

In March 2015, we issued \$500 million unsecured senior notes. The debt and estimated interest increases the material commitments reported in our 2014 Annual Report on Form 10-K by approximately \$732 million which has annual interest of approximately \$23.2 million through March 2025.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies and estimates 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 2014 Annual Report on Form 10-K. Other than our self-insurance updated below, there have been no material changes in these critical accounting policies and estimates. The updated self-insurance accruals had no material impact to the consolidated condensed financial statements.

Table of Contents

Self-Insurance Accruals

We self-insure a significant portion of expected losses relating to worker's compensation, general liability and automobile liability. Generally, deductibles range from \$1 million to \$3 million per occurrence depending on the coverage and whether a claim occurs outside or inside of the United States. Insurance is purchased over deductibles to reduce our exposure to catastrophic events. Estimates are recorded for incurred outstanding liabilities for worker's compensation, general liability claims and claims that are incurred but not reported. Estimates are based on adjusters' estimates, historic experience and statistical methods that we believe are reliable. Nonetheless, insurance estimates include certain assumptions and management judgments regarding the frequency and severity of claims, claim development and settlement practices. Unanticipated changes in these factors may produce materially different amounts of expense that would be reported under these programs.

With the exception of named wind storm risk in the Gulf of Mexico, we insure rig and related equipment at values that approximate the current replacement cost on the inception date of the policy. We self-insure a \$5 million per occurrence rig property deductible through a wholly-owned captive insurance company. We have two insurance policies covering five offshore platform rigs for named wind storm risk in the Gulf of Mexico. The first policy covers four rigs and has a \$75 million aggregate insurance limit over a \$3 million deductible. The second policy covers one offshore platform rig and has a \$30 million limit over a \$3.5 million deductible. Two offshore platform rigs are insured by customers and two are in yards onshore and are insured with a \$5 million deductible. We maintain certain other insurance coverage with deductibles as high as \$5 million. Excess insurance is purchased over these coverage amounts to limit our exposure to catastrophic claims, but there can be no assurance that such coverage will respond or be adequate in all circumstances. Retained losses are estimated and accrued based upon our estimates of the aggregate liability for claims incurred and, using adjusters' estimates, our historical loss experience or estimation methods that are believed to be reliable. Nonetheless, insurance estimates include certain assumptions and management judgments regarding the frequency and severity of claims, claim development and settlement practices. Unanticipated changes in these factors may produce materially different amounts of expense and related liabilities. We self-insure a number of other risks including loss of earnings and business interruption.

RECENTLY ISSUED ACCOUNTING STANDARDS

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, 2017, 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.

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03 *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 amends the FASB Accounting Standards Codification (ASC) to require that debt issuance cost be presented in the balance sheet as a direct deduction from the carrying amount of the related liability. Prior to the amendment, debt issuance costs were reported in the balance sheet as an asset. The amended guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, however, we have elected to early adopt effective January 1, 2015. The election requires retrospective application and represents a change in accounting principle. The ASU provides that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. As a result of the adoption, the September 30, 2014 Consolidated Condensed Balance Sheet is restated as shown in Note 1 to the Consolidated Condensed Financial Statements.

Table of Contents

PART I. FINANCIAL INFORMATION

June 30, 2015

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 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 26, 2014;
- 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;
- Note 14 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; and
- Risk Factors in Item 1A of Part II hereof with regard to commodity price risk.

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, 2015 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

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 have been 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. We can provide no assurances as to the timing or eventual outcome of these discussions and are unable to determine the amount of penalty, if any, that may be assessed. However, we presently believe that the outcome of our discussions will not have a material adverse effect on the Company.

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

Our business depends on the level of activity in the oil and natural gas industry, which is significantly impacted by the volatility of oil and natural gas prices and other factors, including the recent decline in oil prices.

Our business depends on the conditions of the land and offshore oil and natural gas industry. Demand for our services depends on oil and natural gas industry exploration and production activity and expenditure levels, which are directly affected by trends in oil and natural gas prices. Oil and natural gas prices, and market expectations regarding potential changes to these prices, significantly affect oil and natural gas industry activity.

Table of Contents

Oil prices declined significantly during the second half of 2014 and have continued to decline in 2015. In response, many of our customers have announced significant reductions in their 2015 capital spending budgets. At June 30, 2015, 153 out of an available 341 land rigs were working in the U.S. Land segment. After giving effect to new FlexRigs placed into service and additional rig releases since June 30, 2015, as of July 30, 2015, 156 rigs remain contracted in the U.S. Land segment. In the event oil prices remain depressed for a sustained period, or decline further, our U.S. Land, International Land and Offshore segments may experience further, significant declines in both drilling activity and spot dayrate pricing which could have a material adverse effect on our business, financial condition and results of operations.

Oil and natural gas prices are impacted by many factors beyond our control, including:

- the demand for oil and natural gas;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- the worldwide economy;
- expectations about future oil and natural gas prices;
- domestic and international tax policies;
- political and military conflicts in oil producing regions or other geographical areas or acts of terrorism in the U.S. or elsewhere;
- technological advances;
- the development and exploitation of alternative fuels;
- local and international political, economic and weather conditions;
- the ability of The Organization of Petroleum Exporting Countries (OPEC) to set and maintain production levels and pricing;
- the level of production by OPEC and non-OPEC countries; and
- the environmental and other laws and governmental regulations regarding exploration and development of oil and natural gas reserves.

The level of land and offshore exploration, development and production activity and the price for oil and natural gas is volatile and is likely to continue to be volatile in the future. Higher oil and natural gas prices do not necessarily translate into increased activity because demand for our services is typically driven by our customer's expectations of future commodity prices. However, a sustained decline in worldwide demand for oil and natural gas or prolonged low oil or natural gas prices would likely result in reduced exploration and development of land and offshore areas and a decline in the demand for our services, which could have a material adverse effect on our business, financial condition and results of operations.

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 our customer'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. In January 2015, the Venezuelan government announced plans for a new foreign currency exchange system. We are monitoring the status of this change in Venezuela's exchange control policy. 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.

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, 2015, approximately 11.4 percent of our consolidated operating revenues were generated from international locations in our contract drilling business. During the nine months ended June 30, 2015, approximately 71.5 percent of operating revenues from international locations were from operations in South America.

Table of Contents

Our offshore and land operations are subject to a number of operational risks, including environmental and weather risks, which could expose us to significant losses and damage claims. We are not fully insured against all of these risks and our contractual indemnity provisions may not fully protect us.

Our drilling operations are subject to the many hazards inherent in the business, including inclement weather, blowouts, well fires, loss of well control, pollution, and reservoir damage. These hazards could cause significant environmental damage, personal injury and death, suspension of drilling operations, serious damage or destruction of equipment and property and substantial damage to producing formations and surrounding lands and waters.

Our Offshore drilling operations are also subject to potentially greater environmental liability, including pollution of offshore waters and related negative impact on wildlife and habitat, adverse sea conditions and platform damage or destruction due to collision with aircraft or marine vessels. Our Offshore operations may also be negatively affected by blowouts or uncontrolled release of oil by third parties whose offshore operations are unrelated to our operations. We operate several platform rigs in the Gulf of Mexico. The Gulf of Mexico experiences hurricanes and other extreme weather conditions on a frequent basis, the frequency of which may increase with any climate change. Damage caused by high winds and turbulent seas could potentially curtail operations on such platform rigs for significant periods of time until the damage can be repaired. Moreover, even if our platform rigs are not directly damaged by such storms, we may experience disruptions in operations due to damage to customer platforms and other related facilities in the area.

We have a new-build rig assembly facility located near the Houston, Texas ship channel, and our principal fabricator and other vendors are also located in the gulf coast region. Due to their location, these facilities are exposed to potentially greater hurricane damage.

We have indemnification agreements with many of our customers and we also maintain liability and other forms of insurance. In general, our drilling contracts contain provisions requiring our customers to indemnify us for, among other things, pollution and reservoir damage. However, our contractual rights to indemnification may be unenforceable or limited due to negligent or willful acts by us, our subcontractors and/or suppliers. Our customers may also dispute, or be unable to meet, their contractual indemnification obligations to us. Accordingly, we may be unable to transfer these risks to our drilling customers by contract or indemnification agreements. Incurring a liability for which we are not fully indemnified or insured could have a material adverse effect on our business, financial condition and results of operations.

With the exception of named wind storm risk in the Gulf of Mexico, we insure rigs and related equipment at values that approximate the current replacement cost on the inception date of the policies. However, we self-insure large deductibles under these policies. We also carry insurance with varying deductibles and coverage limits with respect to offshore platform rigs and named wind storm risk in the Gulf of Mexico.

We have insurance coverage for comprehensive general liability, automobile liability, worker's compensation and employer's liability, and certain other specific risks. Insurance is purchased over deductibles to reduce our exposure to catastrophic events. We retain a significant portion of our expected losses under our worker's compensation, general liability and automobile liability programs. The Company self-insures a number of other risks including loss of earnings and business interruption. We are unable to obtain significant amounts of insurance to cover risks of underground reservoir damage.

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

If a significant accident or other event occurs and is not fully covered by insurance or an enforceable or recoverable indemnity from a customer, it could have a material adverse effect on our business, financial condition and results of operations. Our insurance will not in all situations provide sufficient funds to protect us from all liabilities that could result from our drilling operations. Our coverage includes aggregate policy limits. As a result, we retain the risk for any loss in excess of these limits. No assurance can be given that all or a portion of our coverage will not be cancelled during fiscal 2015, that insurance coverage will continue to be available at rates considered reasonable or that our coverage will respond to a specific loss. Further, we may experience difficulties in collecting from our insurers or our insurers may deny all or a portion of our claims for insurance coverage.

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 for the year ended September 30, 2014. In order to update these risk factors for developments that have occurred during the first nine months of fiscal 2015, 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 for the year ended September 30, 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
10.1	Eleventh Amendment to Office Lease dated February 18, 2015, between ASP, Inc. and Helmerich & Payne, Inc.
10.2	Twelfth Amendment to Office Lease dated June 30, 2015, 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, 2015, filed on August 7, 2015, 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 7, 2015

By:

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

Date: August 7, 2015

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
10.1	Eleventh Amendment to Office Lease dated February 18, 2015, between ASP, Inc. and Helmerich & Payne, Inc.
10.2	Twelfth Amendment to Office Lease dated June 30, 2015, 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, 2015, filed on August 7, 2015, 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.