HELMERICH & PAYNE INC
Form 10-Q
May 02, 2014
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# 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: March 31, 2014**

**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)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of<br>incorporation or organization) | **73-0679879**<br>(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 x No o

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 x No o

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 x | Accelerated filer o |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

| **CLASS** | **OUTSTANDING AT April 30, 2014** |
|---|---|
| Common Stock, $0.10 par value | 108,143,213 |

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

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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

| | March 31, 2014 | September 30, 2013 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 584,979 | $ 447,868 |
| Accounts receivable, less reserve of $4,601 at March 31, 2014 and $4,795 at September 30, 2013 | 624,108 | 621,420 |
| Inventories | 99,829 | 88,866 |
| Deferred income taxes | 13,998 | 16,414 |
| Prepaid expenses and other | 59,091 | 79,938 |
| Current assets of discontinued operations | 6,979 | 3,705 |
| Total current assets | 1,388,984 | 1,258,211 |
| | | |
| Investments | 284,670 | 316,154 |
| Property, plant and equipment, net | 4,801,236 | 4,676,103 |
| Other assets | 13,391 | 14,359 |
| | | |
| Total assets | $ 6,488,281 | $ 6,264,827 |
| | | |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 135,300 | $ 144,379 |
| Accrued liabilities | 184,847 | 189,684 |
| Long-term debt due within one year | 115,000 | 115,000 |
| Current liabilities of discontinued operations | 3,341 | 3,210 |
| Total current liabilities | 438,488 | 452,273 |
| | | |
| Noncurrent liabilities: | | |
| Long-term debt | 80,000 | 80,000 |
| Deferred income taxes | 1,220,624 | 1,222,981 |
| Other | 57,458 | 65,351 |
| Noncurrent liabilities of discontinued operations | 3,638 | 495 |
| Total noncurrent liabilities | 1,361,720 | 1,368,827 |
| | | |
| Shareholders equity: | | |
| Common stock, $.10 par value, 160,000,000 shares authorized, 110,323,930 shares and 108,738,577 shares issued as of March 31, 2014 and September 30, 2013, respectively and 108,065,638 shares and 106,716,970 shares outstanding as of March 31, 2014 and September 30, 2013, respectively | 11,032 | 10,874 |

| | | | | |
|---|---|---|---|---|
| Preferred stock, no par value, 1,000,000 shares authorized, no shares issued | | | | |
| Additional paid-in capital | | 359,995 | | 288,758 |
| Retained earnings | | 4,314,571 | | 4,102,663 |
| Accumulated other comprehensive income | | 113,425 | | 132,530 |
| Treasury stock, at cost | | (110,950) | | (91,098) |
| Total shareholders equity | | 4,688,073 | | 4,443,727 |
| | | | | |
| Total liabilities and shareholders equity | $ | 6,488,281 | $ | 6,264,827 |

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share data)

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 | Six Months Ended March 31, 2014 | Six Months Ended March 31, 2013 |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Drilling U.S. Land | $ 741,791 | $ 685,710 | $ 1,473,465 | $ 1,381,740 |
| Drilling Offshore | 63,276 | 55,605 | 122,330 | 113,323 |
| Drilling International Land | 85,533 | 94,092 | 180,874 | 181,359 |
| Other | 2,830 | 2,902 | 5,913 | 6,459 |
| | 893,430 | 838,309 | 1,782,582 | 1,682,881 |
| | | | | |
| Operating costs and other: | | | | |
| Operating costs, excluding depreciation | 480,167 | 461,737 | 954,215 | 928,608 |
| Depreciation | 123,963 | 112,433 | 244,200 | 219,032 |
| General and administrative | 34,431 | 32,836 | 66,674 | 65,257 |
| Research and development | 3,625 | 3,696 | 7,882 | 7,049 |
| Income from asset sales | (4,098) | (5,313) | (9,762) | (10,532) |
| | 638,088 | 605,389 | 1,263,209 | 1,209,414 |
| | | | | |
| Operating income from continuing operations | 255,342 | 232,920 | 519,373 | 473,467 |
| | | | | |
| Other income (expense): | | | | |
| Interest and dividend income | 490 | 315 | 943 | 741 |
| Interest expense | (1,725) | (1,186) | (2,919) | (2,494) |
| Gain from sale of investment securities | 21,352 | | 21,352 | 8,752 |
| Other | (32) | 103 | (377) | (1,981) |
| | 20,085 | (768) | 18,999 | 5,018 |
| | | | | |
| Income from continuing operations before income taxes | 275,427 | 232,152 | 538,372 | 478,485 |
| Income tax provision | 100,838 | 81,085 | 190,601 | 167,807 |
| Income from continuing operations | 174,589 | 151,067 | 347,771 | 310,678 |
| | | | | |
| Income (loss) from discontinued operations before income taxes | 2,786 | (472) | 2,786 | (480) |
| Income tax provision | 2,805 | (485) | 2,805 | (485) |
| | | | | |
| Income (loss) from discontinued operations | (19) | 13 | (19) | 5 |
| | | | | |
| **NET INCOME** | **$ 174,570** | **$ 151,080** | **$ 347,752** | **$ 310,683** |
| | | | | |
| Basic earnings per common share: | | | | |
| Income from continuing operations | $ 1.61 | $ 1.41 | $ 3.22 | $ 2.91 |
| Income from discontinued operations | $ | $ | $ | $ |
| Net income | $ 1.61 | $ 1.41 | $ 3.22 | $ 2.91 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Diluted earnings per common share: | | | | | | | | |
| Income from continuing operations | $ | 1.59 | $ | 1.39 | $ | 3.17 | $ | 2.87 |
| Income from discontinued operations | $ | | $ | | $ | | $ | |
| Net income | $ | 1.59 | $ | 1.39 | $ | 3.17 | $ | 2.87 |
| | | | | | | | | |
| Weighted average shares outstanding: | | | | | | | | |
| Basic | | 107,692 | | 106,326 | | 107,417 | | 106,094 |
| Diluted | | 109,081 | | 107,786 | | 108,945 | | 107,640 |
| | | | | | | | | |
| Dividends declared per common share | $ | 0.625 | $ | 0.15 | $ | 1.25 | $ | 0.30 |

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except per share data)

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 | Six Months Ended March 31, 2014 | Six Months Ended March 31, 2013 |
|---|---|---|---|---|
| Net income | $ 174,570 | $ 151,080 | $ 347,752 | $ 310,683 |
| Other comprehensive income (loss), net of income taxes: | | | | |
| Unrealized appreciation (depreciation) on securities, net of income taxes of ($2.3) million and ($4.3) million at March 31, 2014 and $21.9 million and $21.8 million at March 31, 2013 | (3,552) | 37,516 | (6,513) | 37,382 |
| Reclassification of realized gains in net income, net of income taxes of ($8.5) million at March 31, 2014 | (12,884) | | (12,884) | |
| Minimum pension liability adjustments, net of income taxes of $0.1 million and $0.2 million at March 31, 2014 and $0.3 million and $0.5 million at March 31, 2013 | 145 | 432 | 292 | 865 |
| Other comprehensive income (loss) | (16,291) | 37,948 | (19,105) | 38,247 |
| Comprehensive income | $ 158,279 | $ 189,028 | $ 328,647 | $ 348,930 |

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

| | Six Months Ended March 31, 2014 | Six Months Ended March 31, 2013 |
|---|---|---|
| **OPERATING ACTIVITIES:** | | |
| Net income | $ 347,752 | $ 310,683 |
| Adjustment for (income) loss from discontinued operations | 19 | (5) |
| Income from continuing operations | 347,771 | 310,678 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 244,200 | 219,032 |
| Provision for bad debt | (194) | 3,792 |
| Stock-based compensation | 12,804 | 11,726 |
| Other | | 772 |
| Gain on sale of investment securities | (21,352) | (8,752) |
| Income from asset sales | (9,762) | (10,532) |
| Deferred income tax expense | 13,751 | 20,127 |
| Change in assets and liabilities: | | |
| Accounts receivable | (2,494) | 13,459 |
| Inventories | (10,963) | (6,148) |
| Prepaid expenses and other | 21,815 | 31,046 |
| Accounts payable | (25,337) | (70,000) |
| Accrued liabilities | (19,017) | (7,826) |
| Deferred income taxes | (1,109) | (1,211) |
| Other noncurrent liabilities | (10,083) | (11,855) |
| Net cash provided by operating activities from continuing operations | 540,030 | 494,308 |
| Net cash provided by (used in) operating activities from discontinued operations | (19) | 5 |
| Net cash provided by operating activities | 540,011 | 494,313 |
| | | |
| **INVESTING ACTIVITIES:** | | |
| Capital expenditures | (356,753) | (438,473) |
| Proceeds from sale of investment securities | 23,338 | 18,102 |
| Proceeds from asset sales | 13,321 | 16,151 |
| Net cash used in investing activities | (320,094) | (404,220) |
| | | |
| **FINANCING ACTIVITIES:** | | |
| Dividends paid | (121,545) | (23,469) |
| Exercise of stock options | 19,701 | 4,906 |
| Tax withholdings related to net share settlements of restricted stock | (3,049) | (1,677) |
| Excess tax benefit from stock-based compensation | 22,087 | 7,045 |
| Net cash used in financing activities | (82,806) | (13,195) |
| | | |
| Net increase in cash and cash equivalents | 137,111 | 76,898 |
| Cash and cash equivalents, beginning of period | 447,868 | 96,095 |
| Cash and cash equivalents, end of period | $ 584,979 | $ 172,993 |

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS EQUITY

SIX MONTHS ENDED MARCH 31, 2014

(Unaudited)

(in thousands, except per share amounts)

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock Shares | Treasury Stock Amount | Total Shareholders Equity |
|---|---|---|---|---|---|---|---|---|
| Balance, September 30, 2013 | 108,739 | $ 10,874 | $ 288,758 | $ 4,102,663 | $ 132,530 | 2,022 | $ (91,098) | $ 4,443,727 |
| Net income | | | | 347,752 | | | | 347,752 |
| Other comprehensive loss | | | | | (19,105) | | | (19,105) |
| Cash dividends ($1.25 per share) | | | | (135,844) | | | | (135,844) |
| Exercise of stock options | 1,428 | 142 | 36,362 | | | 198 | (16,803) | 19,701 |
| Tax benefit of stock-based awards, including excess tax benefits of $22.1 million | | | 22,087 | | | | | 22,087 |
| Stock issued for vested restricted stock, net of shares withheld for employee taxes | 157 | 16 | (16) | | | 38 | (3,049) | (3,049) |
| Stock-based compensation | | | 12,804 | | | | | 12,804 |
| Balance, March 31, 2014 | 110,324 | $ 11,032 | $ 359,995 | $ 4,314,571 | $ 113,425 | 2,258 | $ (110,950) | $ 4,688,073 |

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

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

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

2. Discontinued Operations

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

3. Earnings per Share

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

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

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 | Six Months Ended March 31, 2014 | Six Months Ended March 31, 2013 |
|---|---|---|---|---|
| | (in thousands, except per share amounts) | | | |
| Numerator: | | | | |
| Income from continuing operations | $ 174,589 | $ 151,067 | $ 347,771 | $ 310,678 |
| Income (loss) from discontinued operations | (19) | 13 | (19) | 5 |
| Net income | 174,570 | 151,080 | 347,752 | 310,683 |
| Adjustment for basic earnings per share: | | | | |
| Earnings allocated to unvested shareholders | (1,035) | (820) | (2,027) | (1,553) |
| Numerator for basic earnings per share: | | | | |
| From continuing operations | 173,554 | 150,247 | 345,744 | 309,125 |
| From discontinued operations | (19) | 13 | (19) | 5 |
| | 173,535 | 150,260 | 345,725 | 309,130 |
| Adjustment for diluted earnings per share: | | | | |
| Effect of reallocating undistributed earnings of unvested shareholders | 8 | 10 | 17 | 19 |
| Numerator for diluted earnings per share: | | | | |
| From continuing operations | 173,562 | 150,257 | 345,761 | 309,144 |
| From discontinued operations | (19) | 13 | (19) | 5 |
| | $ 173,543 | $ 150,270 | $ 345,742 | $ 309,149 |
| Denominator: | | | | |
| Denominator for basic earnings per share weighted-average shares | 107,692 | 106,326 | 107,417 | 106,094 |
| Effect of dilutive shares from stock options and restricted stock | 1,389 | 1,460 | 1,528 | 1,546 |
| Denominator for diluted earnings per share adjusted weighted-average shares | 109,081 | 107,786 | 108,945 | 107,640 |
| Basic earnings per common share: | | | | |
| Income from continuing operations | $ 1.61 | $ 1.41 | $ 3.22 | $ 2.91 |
| Income from discontinued operations | | | | |
| Net income | $ 1.61 | $ 1.41 | $ 3.22 | $ 2.91 |
| Diluted earnings per common share: | | | | |
| Income from continuing operations | $ 1.59 | $ 1.39 | $ 3.17 | $ 2.87 |
| Income from discontinued operations | | | | |
| Net income | $ 1.59 | $ 1.39 | $ 3.17 | $ 2.87 |

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 March 31, 2014 | Three Months Ended March 31, 2013 | Six Months Ended March 31, 2014 | Six Months Ended March 31, 2013 |
|---|---|---|---|---|
| | (in thousands, except per share amounts) | | | |
| | 215 | 752 | 256 | 365 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Shares excluded from calculation of diluted earnings per share | | | | | | | | |
| Weighted-average price per share | $ | 79.67 | $ | 57.30 | $ | 79.67 | $ | 54.18 |

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4. Financial Instruments and Fair Value Measurement

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

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| Equity securities March 31, 2014 | $ 66,448 | $ 205,068 | $ | $ 271,516 |
| Equity securities September 30, 2013 | $ 68,434 | $ 237,214 | $ | $ 305,648 |

On an ongoing basis we evaluate the marketable equity securities to determine if a 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 months ended March 31, 2014, marketable equity available-for-sale securities with a fair value at the date of sale of $23.3 million were sold. The gross realized gain on such sales of available-for-sale securities totaled $21.4 million. We had no sales of marketable equity available-for-sale securities during the six months ended March 31, 2013. During the six months ended March 31, 2013, we sold our shares in three limited partnerships that were primarily invested in international equities realizing a gain of $8.8 million which is included in gain from sale of investment securities in the Consolidated Condensed Statements of Income.

Assets held in the Non-qualified Supplemental Savings Plan are carried at fair value based on level 1 inputs described below. The fair value totaled $13.2 million at March 31, 2014 and $10.5 million at September 30, 2013.

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 March 31, 2014, our financial instruments utilizing Level 1 inputs include cash equivalents, equity securities with active markets, restricted cash included in other current assets and money market funds we have elected to classify as restricted assets that are included in other current assets and other assets. Also included is cash denominated in a foreign currency that we have elected to classify as restricted to be used to settle the remaining liabilities of discontinued operations. For these items, quoted current market prices are readily available.

At March 31, 2014, financial instruments utilizing level 2 inputs include a bank certificate of deposit included in other current assets.

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

The following table summarizes our assets measured at fair value on a recurring basis presented in our Consolidated Condensed Balance Sheet as of March 31, 2014:

| | 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 | $ 584,979 | $ 584,979 | $ | $ |
| Equity securities | 271,516 | 271,516 | | |
| Other current assets | 31,174 | 30,924 | 250 | |
| Other assets | 2,000 | 2,000 | | |
| Total assets measured at fair value | $ 889,669 | $ 889,419 | $ 250 | $ |

The following information presents the supplemental fair value information about fixed-rate debt at March 31, 2014 and September 30, 2013:

| | March 31, 2014 | September 30, 2013 |
|---|---|---|
| | (in millions) | |
| Carrying value of fixed-rate debt | $ 195.0 | $ 195.0 |
| Fair value of fixed-rate debt | $ 203.6 | $ 205.4 |

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

5. Accumulated Other Comprehensive Income

| | March 31, 2014 | September 30, 2013 |
|---|---|---|
| | (in thousands) | |
| Pre-tax amounts: | | |
| Unrealized appreciation on securities | $ 205,068 | $ 237,214 |
| Unrecognized actuarial loss | (18,752) | (19,210) |
| | $ 186,316 | $ 218,004 |

| | | | | |
|---|---|---|---|---|
| After-tax amounts: | | | | |
| Unrealized appreciation on securities | $ | 124,764 | $ | 144,161 |
| Unrecognized actuarial loss | | (11,339) | | (11,631) |
| | $ | 113,425 | $ | 132,530 |

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The following is a summary of the changes in accumulated other comprehensive income (loss), net of tax, by component for the three and six months ended March 31, 2014:

| | Three Months Ended March 31, 2014 | | |
|---|---|---|---|
| | Unrealized Appreciation (Depreciation) on Available-for-sale Securities | Defined Benefit Pension Plan (in thousands) | Total |
| Balances at January 1, 2014 | $ 141,200 | $ (11,484) | $ 129,716 |
| Other comprehensive loss before reclassifications | (3,552) | | (3,552) |
| Amounts reclassified from accumulated other comprehensive income (loss) | (12,884) | 145 | (12,739) |
| Net current-period other comprehensive income (loss) | (16,436) | 145 | (16,291) |
| Balances at March 31, 2014 | $ 124,764 | $ (11,339) | $ 113,425 |

| | Six Months Ended March 31, 2014 | | |
|---|---|---|---|
| | Unrealized Appreciation (Depreciation) on Available-for-sale Securities | Defined Benefit Pension Plan (in thousands) | Total |
| Balance at October 1, 2013 | $ 144,161 | $ (11,631) | $ 132,530 |
| Other comprehensive loss before reclassifications | (6,513) | | (6,513) |
| Amounts reclassified from accumulated other comprehensive income | (12,884) | 292 | (12,592) |
| Net current-period other comprehensive income | (19,397) | 292 | (19,105) |
| Balances at March 31, 2014 | $ 124,764 | $ (11,339) | $ 113,425 |

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 six months ended March 31, 2014:

| Details About Accumulated Other Comprehensive Income (Loss) Components | Amount Reclassified from Accumulated Other Comprehensive Income (Loss) — Three Months Ended March 31, 2014 | 2013 (in thousands) | Six Months Ended March 31, 2014 | 2013 (in thousands) | Affected Line Item in the Condensed Consolidated Statement of Income |
|---|---|---|---|---|---|
| Unrealized gains on available-for-sale securities | $ (21,352) | $ | $ (21,352) | $ | Gain on sale of investment securities |
| | 8,468 | | 8,468 | | Income tax provision |
| | $ (12,884) | $ | $ (12,884) | $ | Net of tax |
| Defined Benefit Pension Items | | | | | |
| Amortization of net actuarial loss | $ 229 | $ 685 | $ 458 | $ 1,370 | General and administrative |
| | (84) | (253) | (166) | (505) | Income tax provision |
| | $ 145 | $ 432 | $ 292 | $ 865 | Net of tax |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total reclassifications for the period | $ | (12,739) | $ | 432 | $ | (12,592) | $ | 865 |

6. Cash Dividends

The $0.625 per share cash dividend declared December 3, 2013, was paid March 3, 2014. On March 5, 2014, a cash dividend of $0.625 per share was declared for shareholders of record on May 15, 2014, payable June 2, 2014. The dividend payable is included in accounts payable in the Consolidated Condensed Balance Sheet.

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7. Stock-Based Compensation

On March 2, 2011, the 2010 Long-Term Incentive Plan (the 2010 Plan ) was approved by our stockholders. The 2010 Plan, among other things, authorizes the Human Resources Committee of the Board to grant non-qualified stock options, restricted stock awards and stock appreciation rights to selected employees and to non-employee Directors. Restricted stock may be granted for no consideration other than prior and future services. The purchase price per share for stock options may not be less than market price of the underlying stock on the date of grant. Stock options expire 10 years after the grant date. There were 261,438 non-qualified stock options and 230,375 shares of restricted stock awards granted in the six months ended March 31, 2014. Awards outstanding in the 2005 Long-Term Incentive Plan (the 2005 Plan ) and one prior equity plan remain subject to the terms and conditions of those plans.

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

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 | Six Months Ended March 31, 2014 | Six Months Ended March 31, 2013 |
|---|---|---|---|---|
| | (in thousands) | | (in thousands) | |
| Compensation expense | | | | |
| Stock options | $ 1,989 | $ 2,649 | $ 5,642 | $ 6,132 |
| Restricted stock | 3,805 | 3,049 | 7,162 | 5,594 |
| | $ 5,794 | $ 5,698 | $ 12,804 | $ 11,726 |

STOCK OPTIONS

The following summarizes the weighted-average assumptions utilized in determining the fair value of options granted during the six months ended March 31, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Risk-free interest rate | 1.6% | 0.7% |
| Expected stock volatility | 52.6% | 53.9% |
| Dividend yield | 3.1% | 1.1% |
| 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.

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A summary of stock option activity under the Plan for the three and six months ended March 31, 2014 is presented in the following tables:

| | Three Months Ended March 31, 2014 | | | |
|---|---|---|---|---|
| **Options** | **Shares (in thousands)** | **Weighted-Average Exercise Price** | **Weighted-Average Remaining Contractual Term (in years)** | **Aggregate Intrinsic Value (in millions)** |
| Outstanding at January 1, 2014 | 3,524 | $ 39.69 | | |
| Granted | | | | |
| Exercised | (701) | 27.71 | | |
| Forfeited/Expired | (5) | 79.67 | | |
| Outstanding at March 31, 2014 | 2,818 | $ 42.59 | 5.6 | $ 183.1 |
| Vested and expected to vest at March 31, 2014 | 2,810 | $ 42.55 | 5.6 | $ 182.7 |
| Exercisable at March 31, 2014 | 2,070 | $ 35.41 | 4.6 | $ 149.3 |

| | Six Months Ended March 31, 2014 | |
|---|---|---|
| **Options** | **Shares (in thousands)** | **Weighted-Average Exercise Price** |
| Outstanding at October 1, 2013 | 3,991 | $ 34.12 |
| Granted | 261 | 79.67 |
| Exercised | (1,428) | 25.57 |
| Forfeited/Expired | (6) | 75.11 |
| Outstanding at March 31, 2014 | 2,818 | $ 42.59 |

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

The total intrinsic value of options exercised during the three and six months ended March 31, 2014 was $47.4 million and $85.7 million, respectively.

As of March 31, 2014 the unrecognized compensation cost related to stock options was $11.4 million which is expected to be recognized over a weighted-average period of 2.8 years.

RESTRICTED STOCK

Restricted stock awards consist of our common stock and are time-vested over three to six years.  We recognize compensation expense on a straight-line basis over the vesting period.  The fair value of restricted stock awards under the 2010 Plan is determined based on the closing price of our shares on the grant date.  As of March 31, 2014, there was $27.8 million of total unrecognized compensation cost related to unvested restricted stock awards which is expected to be recognized over a weighted-average period of 2.8 years.

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A summary of the status of our restricted stock awards as of March 31, 2014 and changes in restricted stock outstanding during the six months then ended is presented below:

| | Six Months Ended March 31, 2014 | | |
|---|---|---|---|
| **Restricted Stock Awards** | **Shares (in thousands)** | | **Weighted-Average Grant-Date Fair Value** |
| Unvested at October 1, 2013 | 576 | $ | 55.17 |
| Granted | 230 | | 79.67 |
| Vested (1) | (157) | | 54.08 |
| Forfeited | (6) | | 70.39 |
| Unvested at March 31, 2014 | 643 | $ | 64.08 |

(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 March 31, 2014 and September 30, 2013, we had the following unsecured long-term debt outstanding:

| | | **March 31, 2014** | | **September 30, 2013** |
|---|---|---|---|---|
| | | **(in thousands)** | | |
| Unsecured intermediate debt issued August 15, 2002: | | | | |
| Series D, due August 15, 2014, 6.56% | $ | 75,000 | $ | 75,000 |
| Unsecured senior notes issued July 21, 2009: | | | | |
| Due July 21, 2014, 6.10% | | 40,000 | | 40,000 |
| Due July 21, 2015, 6.10% | | 40,000 | | 40,000 |
| Due July 21, 2016, 6.10% | | 40,000 | | 40,000 |
| | $ | 195,000 | $ | 195,000 |
| Less long-term debt due within one year | | 115,000 | | 115,000 |
| Long-term debt | $ | 80,000 | $ | 80,000 |

The intermediate unsecured debt outstanding at March 31, 2014 matures August 15, 2014 and carries an interest rate of 6.56 percent, which is paid semi-annually. The terms require that we maintain a ratio of debt to total capitalization of less than 55 percent. The debt is held by various entities.

We have $120 million in senior unsecured fixed-rate notes outstanding at March 31, 2014 that mature over a period from July 2014 to July 2016. Interest on the notes is paid semi-annually based on an annual rate of 6.10 percent. Annual principal repayments of $40 million are due July 2014 through July 2016.  We have complied with our financial covenants which require us to maintain a funded leverage ratio of less than 55 percent and an interest coverage ratio (as defined) of not less than 2.50 to 1.00.

We have a $300 million unsecured revolving credit facility that will mature May 25, 2017.  The credit facility has $100 million available to use for letters of credit.  We anticipate that the majority of any borrowings under the facility will accrue interest at a spread over the London Interbank Offered Rate (LIBOR).  We will also pay a commitment fee based on the unused balance of the facility.  Borrowing spreads as well as commitment fees are determined according to a scale based on a ratio of our total debt to total capitalization.  The spread over LIBOR ranges from 1.125 percent to 1.75 percent per annum and commitment fees range from .15 percent to .35 percent per annum.  Based on our debt to total capitalization on March 31, 2014, the spread over LIBOR and commitment fees would be 1.125 percent and .15 percent, respectively.  Financial covenants in the facility require us to maintain a funded leverage ratio (as defined) of less than 50 percent and an interest coverage ratio (as defined) of not less than 3.00 to 1.00.  The credit facility contains additional terms, conditions, restrictions, and covenants that we believe are usual and customary in unsecured debt arrangements for companies of similar size and credit quality.  At March 31, 2014, we were in compliance with all debt covenants.  As of March 31, 2014, there were no borrowings, but there were three letters of credit outstanding in the amount of $30.7 million.  At March 31, 2014, we had $269.3 million available to borrow under our $300 million unsecured credit facility.

At March 31, 2014, we had three 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 six months of fiscal 2014 and 2013 was 35.4 percent and 35.1 percent, respectively. Our effective tax rate for the three months ended March 31, 2014 and 2013 was 36.6 percent and 34.9 percent, respectively. Effective tax rates differ from the U.S. federal statutory rate of 35.0 percent primarily due to state and foreign income taxes and the tax benefit from the Internal Revenue Code Section 199 deduction for domestic production activities.

For the next 12 months, we cannot predict with certainty whether we will achieve ultimate resolution of any uncertain tax positions associated with our U.S. and international operations that could result in increases or decreases of our unrecognized tax benefits. However, we believe it is reasonably possible that the reserve for uncertain tax positions may increase by approximately $8.0 million to $10.7 million during the next 12 months due to international matters. We provided for uncertain tax positions of $3.1 million related to discontinued operations during the six months ended March 31, 2014.

10. Commitments and Contingencies

In conjunction with our current drilling rig construction program, purchase commitments for equipment, parts and supplies of approximately $189.7 million are outstanding at March 31, 2014.

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

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

During the ordinary course of our business, contingencies arise resulting from an existing condition, situation or set of circumstances involving an uncertainty as to the realization of a possible gain contingency. We account for gain contingencies in accordance with the provisions of ASC 450, *Contingencies*, and, therefore, we do not record gain contingencies or recognize income until realized. The property and equipment of our Venezuelan subsidiary was seized by the Venezuelan government on June 30, 2010. Our wholly-owned subsidiaries, Helmerich & Payne International Drilling Co. and Helmerich & Payne de Venezuela, C.A., filed a lawsuit in the United States District Court for the District of Columbia on September 23, 2011 against the Bolivarian Republic of Venezuela, Petroleos de Venezuela, S.A. ( PDVSA ) and PDVSA Petroleo, S.A. ( Petroleo ). Our subsidiaries seek damages for the taking of their Venezuelan drilling business in violation of international law and for breach of contract. While there exists the possibility of realizing a recovery, we are currently unable to determine the timing or amounts we may receive, if any, or the likelihood of recovery. No gain contingencies are recognized in our Consolidated Financial Statements.

On November 8, 2013, the United States District Court for the Eastern District of Louisiana approved the previously disclosed October 30, 2013 plea agreement between our wholly owned subsidiary, Helmerich & Payne International Drilling Co., and the United States Department of Justice, United States Attorney s Office for the Eastern District of Louisiana ( DOJ ). The court s approval of the plea agreement resolved the DOJ s investigation into certain choke manifold testing irregularities that occurred in 2010 at one of Helmerich & Payne International Drilling Co. s offshore platform rigs in the Gulf of Mexico. In November 2013, we paid a $5.4 million monetary penalty and made a $1.0 million organizational community service payment which were included in accrued liabilities on the September 30, 2013 Consolidated Balance Sheet and in operating costs, excluding depreciation in the September 30, 2013 Consolidated Statement of Income. We are also currently engaged in discussions with the Inspector General s office of the Department of Interior regarding the same events that were the subject of the DOJ s investigation. Although we presently believe that the outcome of our discussions will not have a material adverse effect on the Company, we can provide no assurances as to the timing or eventual outcome of these discussions.

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

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reportable operating segment, as separate reportable operating segments. Additionally, each reportable operating segment is a strategic business unit that is managed separately. Our primary international areas of operation include Colombia, Ecuador, Argentina, Tunisia, Bahrain, U.A.E. and other South American countries. Other includes additional non-reportable operating segments. Revenues included in Other consist primarily of rental income. Consolidated revenues and expenses reflect the elimination of all material intercompany transactions.

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

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

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

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

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

Summarized financial information of our reportable segments for the six months ended March 31, 2014 and 2013 is shown in the following tables:

| **(in thousands)** | **External Sales** | **Inter-Segment** | **Total Sales** | **Segment Operating Income (Loss)** |
|---|---|---|---|---|
| **March 31, 2014** | | | | |

| | | | | |
|---|---|---|---|---|
| Contract Drilling: | | | | |
| U.S. Land | $ 1,473,465 | $ | $ 1,473,465 | $ 496,014 |
| Offshore | 122,330 | | 122,330 | 37,841 |
| International Land | 180,874 | | 180,874 | 23,919 |
| | 1,776,669 | | | |