

HELMERICH & PAYNE INC  
Form 10-Q  
August 05, 2010  
[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, 2010**

**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, 2010**  
105,813,661



Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

|                   | <b>Page No.</b>   |
|-------------------|---|
| <u>PART I.</u>    |   |
|                   | <u>FINANCIAL INFORMATION</u>  |
| <u>Item 1.</u>    | <u>Financial Statements</u>   |
|                   | <u>Consolidated Condensed Balance Sheets as of June 30, 2010 and September 30, 2009</u> 3                           |
|                   | <u>Consolidated Condensed Statements of Operations for the Three and Nine Months Ended June 30, 2010 and 2009</u> 4 |
|                   | <u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended June 30, 2010 and 2009</u> 5           |
|                   | <u>Consolidated Condensed Statement of Shareholders' Equity for the Nine Months Ended June 30, 2010</u> 6           |
|                   | <u>Notes to Consolidated Condensed Financial Statements</u> 7-23  |
| <u>Item 2.</u>    | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 24-34                  |
| <u>Item 3.</u>    | <u>Quantitative and Qualitative Disclosures about Market Risk</u> 35  |
| <u>Item 4.</u>    | <u>Controls and Procedures</u> 35   |
| <u>PART II.</u>   | <u>OTHER INFORMATION</u>  |
| <u>Item 1A.</u>   | <u>Risk Factors</u> 36  |
| <u>Item 6.</u>    | <u>Exhibits</u> 37  |
| <u>Signatures</u> | 38  |

Table of Contents

## PART I. FINANCIAL INFORMATION

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

## CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share and per share amounts)

## ITEM 1. FINANCIAL STATEMENTS

|   | June 30,<br>2010 | September 30,<br>2009 |
|---|------------------|-----------------------|
| <b><u>ASSETS</u></b>  |                  |                       |
| Current assets:   |                  |                       |
| Cash and cash equivalents   | \$ 77,717        | \$ 96,142             |
| Short-term investments  |                  | 12,500                |
| Accounts receivable, less reserve of \$629 at June 30, 2010 and \$659 at September 30, 2009   | 335,000          | 233,949               |
| Inventories   | 43,505           | 39,544                |
| Deferred income taxes   | 17,480           | 6,373                 |
| Assets held for sale  |                  | 1,023                 |
| Prepaid expenses and other  | 66,041           | 52,495                |
| Current assets of discontinued operations   | 9,507            | 80,906                |
| Total current assets  | 549,250          | 522,932               |
| Investments   | 274,620          | 356,404               |
| Property, plant and equipment, net  | 3,235,863        | 3,194,273             |
| Non-current assets of discontinued operations   |                  | 71,634                |
| Other assets  | 13,921           | 15,781                |
| Total assets  | \$ 4,073,654     | \$ 4,161,024          |
| <b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>  |                  |                       |
| Current liabilities:  |                  |                       |
| Accounts payable  | \$ 54,137        | \$ 68,173             |
| Accrued liabilities   | 149,153          | 111,750               |
| Short-term debt   |                  | 105,000               |
| Current liabilities of discontinued operations  | 7,688            | 16,983                |
| Total current liabilities   | 210,978          | 301,906               |
| Noncurrent liabilities:   |                  |                       |
| Long-term debt  | 390,000          | 420,000               |
| Deferred income taxes   | 692,103          | 672,358               |
| Other   | 73,227           | 73,546                |
| Non-current liabilities of discontinued operations  | 1,819            | 10,205                |
| Total noncurrent liabilities  | 1,157,149        | 1,176,109             |
| Shareholders' equity:   |                  |                       |
| Common stock, \$.10 par value, 160,000,000 shares authorized, 107,057,904 shares issued as of June 30, 2010 and September 30, 2009 and 105,811,476 and 105,486,218 shares | 10,706           | 10,706                |

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

outstanding as of June 30, 2010 and September 30, 2009, respectively

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

|  |              |              |
|--|--------------|--------------|
| Additional paid-in capital                 | 188,786      | 176,039      |
| Retained earnings                          | 2,471,238    | 2,414,942    |
| Accumulated other comprehensive income     | 62,130       | 112,451      |
| Treasury stock, at cost                    | (27,333)     | (31,129)     |
| Total shareholders' equity                 | 2,705,527    | 2,683,009    |
| Total liabilities and shareholders' equity | \$ 4,073,654 | \$ 4,161,024 |

The accompanying notes are an integral part of these statements.

Table of Contents

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

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

|   | Three Months Ended<br>June 30, |                  | Nine Months Ended<br>June 30, |                   |
|---|--------------------------------|------------------|-------------------------------|-------------------|
|   | 2010                           | 2009             | 2010                          | 2009              |
| Operating revenues:   |                                |                  |                               |                   |
| Drilling U.S. Land  | \$ 366,989                     | \$ 282,358       | \$ 976,497                    | \$ 1,172,076      |
| Drilling Offshore   | 53,131                         | 55,605           | 153,186                       | 157,424           |
| Drilling International Land   | 60,045                         | 43,882           | 177,377                       | 147,940           |
| Other   | 3,219                          | 2,514            | 9,145                         | 8,024             |
|   | 483,384                        | 384,359          | 1,316,205                     | 1,485,464         |
| Operating costs and other:  |                                |                  |                               |                   |
| Operating costs, excluding depreciation   | 285,583                        | 204,523          | 742,761                       | 754,098           |
| Depreciation  | 65,208                         | 58,737           | 189,418                       | 166,082           |
| General and administrative  | 20,114                         | 14,172           | 61,296                        | 45,481            |
| Research and development  | 3,254                          | 2,777            | 8,411                         | 6,630             |
| Gain from involuntary conversion of long-lived assets                                   |                                | (264)            |                               | (541)             |
| Income from asset sales   | (2,249)                        | (1,741)          | (4,245)                       | (4,706)           |
|   | 371,910                        | 278,204          | 997,641                       | 967,044           |
| Operating income from continuing operations   | 111,474                        | 106,155          | 318,564                       | 518,420           |
| Other income (expense):   |                                |                  |                               |                   |
| Interest and dividend income  | 940                            | 199              | 1,536                         | 2,362             |
| Interest expense  | (3,961)                        | (2,893)          | (12,693)                      | (9,147)           |
| Other   | 215                            | (49)             | 253                           | 51                |
|   | (2,806)                        | (2,743)          | (10,904)                      | (6,734)           |
| Income from continuing operations before income taxes and equity in income of affiliate | 108,668                        | 103,412          | 307,660                       | 511,686           |
| Income tax provision  | 43,785                         | 35,391           | 104,870                       | 196,227           |
| Equity in income of affiliate net of income taxes                                       |                                |                  |                               | 10,111            |
| Income from continuing operations   | 64,883                         | 68,021           | 202,790                       | 325,570           |
| Loss from discontinued operations before income taxes                                   | (101,548)                      | (13,717)         | (127,160)                     | (18,451)          |
| Income tax provision  | 50                             | 1,260            | 2,363                         | 5,062             |
| Loss from discontinued operations   | (101,598)                      | (14,977)         | (129,523)                     | (23,513)          |
| <b>NET INCOME (LOSS)</b>  | <b>\$ (36,715)</b>             | <b>\$ 53,044</b> | <b>\$ 73,267</b>              | <b>\$ 302,057</b> |
| Basic earnings per common share:  |                                |                  |                               |                   |
| Income from continuing operations   | \$ 0.61                        | \$ 0.64          | \$ 1.92                       | \$ 3.08           |

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

|                                      |    |         |    |         |    |         |    |         |
|--------------------------------------|----|---------|----|---------|----|---------|----|---------|
| Loss from discontinued operations    | \$ | (0.96)  | \$ | (0.14)  | \$ | (1.23)  | \$ | (0.22)  |
| Net income (loss)                    | \$ | (0.35)  | \$ | 0.50    | \$ | 0.69    | \$ | 2.86    |
| Diluted earnings per common share:   |    |         |    |         |    |         |    |         |
| Income from continuing operations    | \$ | 0.61    | \$ | 0.64    | \$ | 1.89    | \$ | 3.05    |
| Loss from discontinued operations    | \$ | (0.95)  | \$ | (0.14)  | \$ | (1.21)  | \$ | (0.22)  |
| Net income (loss)                    | \$ | (0.34)  | \$ | 0.50    | \$ | 0.68    | \$ | 2.83    |
| Weighted average shares outstanding: |    |         |    |         |    |         |    |         |
| Basic                                |    | 105,743 |    | 105,425 |    | 105,676 |    | 105,330 |
| Diluted                              |    | 107,444 |    | 106,695 |    | 107,400 |    | 106,381 |
| Dividends declared per common share  |    |         |    |         |    |         |    |         |
|                                      | \$ | 0.060   | \$ | 0.050   | \$ | 0.160   | \$ | 0.150   |

The accompanying notes are an integral part of these statements.



Table of Contents

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

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

|   | Nine Months Ended<br>June 30, |             |
|---|-------------------------------|-------------|
|   | 2010                          | 2009        |
| <b>OPERATING ACTIVITIES:</b>  |                               |             |
| Net income  | \$ 73,267                     | \$ 302,057  |
| Adjustment for loss from discontinued operations                                  | 129,523                       | 23,513      |
| Income from continuing operations   | 202,790                       | 325,570     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |             |
| Depreciation  | 189,418                       | 166,082     |
| Provision for bad debt  | 4                             | 580         |
| Equity in income of affiliate before income taxes                                 |                               | (16,308)    |
| Stock-based compensation  | 12,874                        | 6,292       |
| Other   | 79                            | 394         |
| Gain from involuntary conversion of long-lived assets                             |                               | (541)       |
| Income from asset sales   | (4,245)                       | (4,706)     |
| Deferred income tax expense   | 36,714                        | 153,997     |
| Change in assets and liabilities-   |                               |             |
| Accounts receivable   | (101,055)                     | 144,804     |
| Inventories   | (3,961)                       | (11,882)    |
| Prepaid expenses and other  | (11,739)                      | (11,675)    |
| Accounts payable  | (6,785)                       | (14,948)    |
| Accrued liabilities   | 20,025                        | (8,311)     |
| Deferred income taxes   | (527)                         | 8,245       |
| Other noncurrent liabilities  | 952                           | (3,540)     |
| Net cash provided by operating activities from continuing operations              | 334,544                       | 734,053     |
| Net cash provided by (used in) operating activities from discontinued operations  | (1,507)                       | 402         |
| Net cash provided by operating activities   | 333,037                       | 734,455     |
| <b>INVESTING ACTIVITIES:</b>  |                               |             |
| Capital expenditures  | (220,200)                     | (734,506)   |
| Insurance proceeds from involuntary conversion                                    |                               | 541         |
| Proceeds from sale of short-term investments                                      | 12,516                        |             |
| Proceeds from asset sales   | 6,297                         | 6,658       |
| Purchase of short-term investments  | (16)                          | (12,500)    |
| Other   |                               | (16)        |
| Net cash used in investing activities from continuing operations                  | (201,403)                     | (739,823)   |
| Net cash used in investing activities from discontinued operations                | (55)                          | (3,857)     |
| Net cash used in investing activities   | (201,458)                     | (743,680)   |
| <b>FINANCING ACTIVITIES:</b>  |                               |             |
| Decrease in notes payable   |                               | (1,733)     |
| Proceeds from line of credit  | 835,000                       | 3,185,000   |
| Payments on line of credit  | (970,000)                     | (3,125,000) |
| Increase (decrease) in bank overdraft   | (2,038)                       | 8,992       |
| Dividends paid  | (15,891)                      | (15,829)    |

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

|  |           |            |
|--|-----------|------------|
| Exercise of stock options                            | (391)     | 710        |
| Excess tax benefit from stock-based compensation     | 3,316     | 1,189      |
| Net cash provided by (used in) financing activities  | (150,004) | 53,329     |
| Net increase (decrease) in cash and cash equivalents | (18,425)  | 44,104     |
| Cash and cash equivalents, beginning of period       | 96,142    | 77,549     |
| Cash and cash equivalents, end of period             | \$ 77,717 | \$ 121,653 |

The accompanying notes are an integral part of these statements.

[Table of Contents](#)

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

## CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY

NINE MONTHS ENDED JUNE 30, 2010

(Unaudited)

(in thousands, except per share amounts)

|   | Common<br>Shares | Stock<br>Amount | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Shares | Stock<br>Amount | Total<br>Shareholders<br>Equity |
|---|------------------|-----------------|----------------------------------|----------------------|---|--------------------|-----------------|---------------------------------|
| Balance, September 30, 2009   | 107,058          | \$ 10,706       | \$ 176,039                       | \$ 2,414,942         | \$ 112,451                                      | 1,572              | \$ (31,129)     | \$ 2,683,009                    |
| Comprehensive Income:   |                  |                 |                                  |                      |   |                    |                 |                                 |
| Net income  |                  |                 |                                  | 73,267               |   |                    |                 | 73,267                          |
| Other comprehensive income:   |                  |                 |                                  |                      |   |                    |                 |                                 |
| Change in value on<br>available-for-sale securities                                     |                  |                 |                                  |                      | (51,326)  |                    |                 | (51,326)                        |
| Amortization of net periodic<br>benefit costs-net of actuarial gain                     |                  |                 |                                  |                      | 1,005   |                    |                 | 1,005                           |
| Total comprehensive income  |                  |                 |                                  |                      |   |                    |                 | 22,946                          |
| Cash dividends (\$.16 per share)  |                  |                 |                                  | (16,971)             |   |                    |                 | (16,971)                        |
| Exercise of stock options   |                  |                 | (2,742)                          |                      |   | (256)              | 2,351           | (391)                           |
| Tax benefit of stock-based<br>awards, including excess tax<br>benefits of \$3.3 million |                  |                 | 4,060                            |                      |   |                    |                 | 4,060                           |
| Treasury stock issued for vested<br>restricted stock                                    |                  |                 | (1,445)                          |                      |   | (70)               | 1,445           |                                 |
| Stock-based compensation  |                  |                 | 12,874                           |                      |   |                    |                 | 12,874                          |
| Balance, June 30, 2010  | 107,058          | \$ 10,706       | \$ 188,786                       | \$ 2,471,238         | \$ 62,130                                       | 1,246              | \$ (27,333)     | \$ 2,705,527                    |

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 2009 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.

We classified the Venezuelan operation, an operating segment within the International Land Segment, as a discontinued operation in the third quarter of fiscal 2010, as more fully described in Note 2. Accordingly, the assets and liabilities of this business, along with its results of operations, have been reclassified for all periods presented. Unless indicated otherwise, the information in the Notes to the Consolidated Condensed Financial Statements relates only to our continuing operations.

The adoption of the guidance contained in Accounting Standards Codification ( ASC ) 260-10-45, *Earnings per Share*, discussed below in Note 2 changed the calculation of basic earnings per share requiring restricted stock grants that have previously been included in our diluted weighted-average shares to be included in basic weighted-average shares. Earnings per share for the three and nine months ended June 30, 2009 has been recalculated to conform to the current year presentation.

As more fully described in our 2009 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 term, 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

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

On June 30, 2010, the Official Gazette of Venezuela published the Decree of Venezuelan President Hugo Chavez, which authorized the forceful acquisition of eleven rigs owned by our Venezuelan subsidiary. The Decree also authorized the seizure of all the personal and real property and other improvements used by our Venezuelan subsidiary in its drilling operations. The seizing of our assets became effective June 30, 2010 and meets the criteria established for recognition as discontinued operations under accounting standards for presentation of financial statements. Therefore, as of June 30, 2010, operations from the Venezuelan subsidiary, an operating segment within the International Land Segment, have been classified as discontinued operations in our Consolidated Condensed Financial Statements. All historical statements have been reclassified to conform to this presentation.

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Our revenue in Venezuela was from providing drilling services to Petroleos de Venezuela, S.A. (PDVSA), the Venezuelan state-owned petroleum company. We determined, as of the beginning of the second quarter of fiscal 2009 and forward, that the revenue recognition criteria in Venezuela was no longer met as collectability of revenue was not reasonably assured, primarily due to the uncertainty of the timing of collectability. However, up until the time of the seizing of our assets, we continued to receive payments from PDVSA and were in discussions with PDVSA officials regarding payments and the possibility of contract negotiations to put our rigs back to work.

As a result of the seizing of our assets in the third quarter of fiscal 2010, we have derecognized our Venezuela property and equipment, \$65.0 million, and warehouse inventory, \$5.1 million, resulting in a loss of approximately \$70.1 million. Accounts receivable, payables and other deferred charges and credits, netting to approximately \$10.7 million, were also written off because the related future cash inflows and outflows associated with them are no longer expected to occur. At June 30, 2010, we had approximately \$31.3 million (U.S. currency equivalent) cash balances in Venezuela. We have, since July 22, 2008, had an outstanding application with the Venezuelan government requesting approval to convert bolivar fuerte (Bsf) cash balances to U.S. dollars. If approval is ever received, our Venezuelan subsidiary would remit approximately \$14.2 million as a dividend to its U.S. based parent. Because of the seizure of our assets by the Venezuelan government and our inability to obtain approval of the dividend, we also impaired approximately \$21.8 million cash as of June 30, 2010. The remaining cash was classified as restricted cash, a current asset from discontinued operations, to meet remaining current obligations.

Summarized operating results from discontinued operations are as follows:

|                                   | Three Months Ended<br>June 30, |             | Nine Months Ended<br>June 30, |             |
|-----------------------------------|--------------------------------|-------------|-------------------------------|-------------|
|                                   | 2010                           | 2009        | 2010                          | 2009        |
| Revenue                           | \$ 6,787                       | \$ 3,408    | \$ 13,534                     | \$ 46,357   |
| Loss before income taxes          | (101,548)                      | (13,717)    | (127,160)                     | (18,451)    |
| Income tax expense                | (50)                           | (1,260)     | (2,363)                       | (5,062)     |
| Loss from discontinued operations | \$ (101,598)                   | \$ (14,977) | \$ (129,523)                  | \$ (23,513) |

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Significant categories of assets and liabilities from discontinued operations are as follows:

|                                    | June 30,<br>2010 | September 30,<br>2009 |
|------------------------------------|------------------|-----------------------|
| Cash and cash equivalents          | \$               | \$ 45,344             |
| Accounts receivable                |                  | 12,841                |
| Other current assets               | 9,507            | 22,721                |
| Total current assets               | 9,507            | 80,906                |
| Property, plant and equipment, net |                  | 71,634                |
| Total assets                       | \$ 9,507         | \$ 152,540            |
| Total current liabilities          | \$ 7,688         | \$ 16,983             |
| Total noncurrent liabilities       | 1,819            | 10,205                |
| Total liabilities                  | \$ 9,507         | \$ 27,188             |

Liabilities consist of municipal and income taxes payable and social obligations due within the country of Venezuela.

On January 8, 2010, the Venezuelan government devalued its currency. The official exchange rate was devalued from 2.15 BsF to each U.S. dollar to 4.30 BsF. As a result of the devaluation, we recorded an exchange loss of approximately \$19.7 million during the second quarter of fiscal 2010. The devaluation is included in discontinued operations.

Effective January 1, 2010, Venezuela was designated hyper-inflationary, which is defined as cumulative inflation rates exceeding 100 percent in the most recent three-year period. All of our foreign subsidiaries use the U.S. dollar as the functional currency and local currency monetary assets are remeasured into U.S. dollars with gains and losses resulting from foreign currency transactions included in current results of operations. As such, the designation of Venezuela as hyper-inflationary had no impact on our Consolidated Financial Statements.

3. Earnings per Share

Effective October 1, 2009, we adopted the guidance contained in ASC 260-10-45, *Earnings per Share*. ASC 260-10-45 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in ASC 260-10-45. ASC 260-10-45 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 restricted stock grants to employees and non-employee directors that contain non-forfeitable rights to dividend. Such grants are considered participating securities under ASC 260-10-45.

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

As such, we are required to include these grants in the calculation of our basic earnings per share and will need to calculate basic earnings per share using the two-class method. Restricted stock grants have previously been included in our dilutive earnings per share calculation using the treasury stock 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. Since the adoption of ASC 260-10-45 is to be applied retrospectively, the earnings per share have been recalculated for prior periods to conform to the current year presentation. As a result, the number of shares used to compute earnings per share changed. For the nine months ended June 30, 2009, basic and diluted earnings per share decreased \$0.01 due to the adoption.

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

Diluted net income 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.



Table of Contents

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

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

|   | Three Months Ended<br>June 30, |           | Nine Months Ended<br>June 30, |            |
|---|--------------------------------|-----------|-------------------------------|------------|
|   | 2010                           | 2009      | 2010                          | 2009       |
| <b>Numerator:</b>   |                                |           |                               |            |
| Income from continuing operations   | \$ 64,883                      | \$ 68,021 | \$ 202,790                    | \$ 325,570 |
| Loss from discontinued operations   | (101,598)                      | (14,977)  | (129,523)                     | (23,513)   |
| Net income (loss)   | (36,715)                       | 53,044    | 73,267                        | 302,057    |
| <b>Adjustment for basic earnings per share:</b>                               |                                |           |                               |            |
| Earnings allocated to unvested shareholders                                   | 99                             | (89)      | (188)                         | (492)      |
| <b>Numerator for basic earnings per share:</b>                                |                                |           |                               |            |
| From continuing operations  | 64,982                         | 67,932    | 202,602                       | 325,078    |
| From discontinued operations  | (101,598)                      | (14,977)  | (129,523)                     | (23,513)   |
|   | (36,616)                       | 52,955    | 73,079                        | 301,565    |
| <b>Adjustment for diluted earnings per share:</b>                             |                                |           |                               |            |
| Effect of reallocating undistributed earnings of unvested shareholders        | (2)                            | 1         | 2                             | 4          |
| <b>Numerator for diluted earnings per share:</b>                              |                                |           |                               |            |
| From continuing operations  | 64,980                         | 67,933    | 202,604                       | 325,082    |
| From discontinued operations  | (101,598)                      | (14,977)  | (129,523)                     | (23,513)   |
|   | \$ (36,618)                    | \$ 52,956 | \$ 73,081                     | \$ 301,569 |
| <b>Denominator:</b>   |                                |           |                               |            |
| Denominator for basic earnings per share - weighted-average shares            | 105,743                        | 105,425   | 105,676                       | 105,330    |
| Effect of dilutive shares from stock options and restricted stock             | 1,701                          | 1,270     | 1,724                         | 1,051      |
| Denominator for diluted earnings per share - adjusted weighted-average shares | 107,444                        | 106,695   | 107,400                       | 106,381    |
| <b>Basic earnings per common shares:</b>                                      |                                |           |                               |            |
| Income from continuing operations   | \$ 0.61                        | \$ 0.64   | \$ 1.92                       | \$ 3.08    |
| Loss from discontinued operations   | (0.96)                         | (0.14)    | (1.23)                        | (0.22)     |
| Net income (loss)   | \$ (0.35)                      | \$ 0.50   | \$ 0.69                       | \$ 2.86    |
| <b>Diluted earnings per common shares:</b>                                    |                                |           |                               |            |
| Income from continuing operations   | \$ 0.61                        | \$ 0.64   | \$ 1.89                       | \$ 3.05    |
| Loss from discontinued operations   | (0.95)                         | (0.14)    | (1.21)                        | (0.22)     |
| Net income (loss)   | \$ (0.34)                      | \$ 0.50   | \$ 0.68                       | \$ 2.83    |

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

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

|  | Three Months Ended<br>June 30, |           | Nine Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|-------------------------------|-----------|
|  | 2010                           | 2009      | 2010                          | 2009      |
| Shares excluded from calculation of diluted earnings per share | 554                            | 718       | 568                           | 1,215     |
| Weighted-average price per share                               | \$ 38.015                      | \$ 35.105 | \$ 38.015                     | \$ 33.110 |

4. Inventories

Inventories consist primarily of replacement parts and supplies held for use in our drilling operations.

5. Financial Instruments and Fair Value Measurement

The estimated fair value of our available-for-sale securities is primarily based on market quotes. The following is a summary of available-for-sale securities, which excludes investments in limited partnerships carried at cost and assets held in a Non-qualified Supplemental Savings Plan:

|                            | Cost       | Gross<br>Unrealized<br>Gains<br>(in thousands) | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|----------------------------|------------|--|-------------------------------|----------------------------|
| Equity securities 06/30/10 | \$ 129,183 | \$ 128,518                                     | \$                            | \$ 257,701                 |
| Equity securities 09/30/09 | \$ 129,183 | \$ 210,640                                     | \$                            | \$ 339,823                 |

On an on-going basis, we evaluate the marketable equity securities to determine if any decline in fair market below original cost is other-than-temporary. If a decline in fair value 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

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

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. We had no sales of marketable equity available-for-sale securities during the first nine months of fiscal 2010 and 2009.

Investments in limited partnerships carried at cost were approximately \$12.4 million at June 30, 2010 and September 30, 2009. The estimated fair value of the limited partnerships was \$19.8 million and \$19.7 million at June 30, 2010 and September 30, 2009, respectively. The estimated fair value exceeded the cost of investments at June 30, 2010 and September 30, 2009 and, as such, the investments were not impaired.

Assets held in the Non-qualified Supplemental Savings Plan are carried at fair market value which totaled \$4.5 million at June 30, 2010 and \$4.2 million at September 30, 2009, respectively.

The majority of cash equivalents are invested in taxable and non-taxable money-market mutual funds. The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of those investments.

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

During the second quarter of fiscal 2010, a \$12.5 million bank certificate of deposit with an original maturity greater than three months matured. Interest earned is included in interest and dividend income on the Consolidated Condensed Statements of Operations.

On October 1, 2009, we implemented the previously deferred provisions of ASC 820, *Fair Value Measurements and Disclosures*, for nonfinancial assets and liabilities recorded at fair value, as required. Additionally, we adopted Accounting Standards Update No. 2009-05, *Measuring Liabilities at Fair Value* (ASU 2009-05), which provided amendments to ASC 820 for the fair value measurements of liabilities when a quoted price in an active market is not available. On December 15, 2009, we adopted the disclosure requirements in ASU 2009-06, *Fair Value Measurements and Disclosures (Topic 820)-Improving Disclosures about Fair Value Measurements*, requiring that information be provided about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy discussed below. The adoption of these pronouncements had no impact on these Consolidated Condensed Financial Statements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a 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 Observable inputs that reflect quoted prices in active markets for identical assets or liabilities in active markets.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Valuations based on inputs that are unobservable and not corroborated by market data.

At June 30, 2010, our financial instruments utilizing Level 1 inputs include cash equivalents, equity securities with active markets, 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 we have elected to classify as restricted that is included in current assets of discontinued operations and limited to remaining liabilities of discontinued operations. For these items, quoted current market prices are readily available.

At June 30, 2010, financial instruments utilizing level 2 inputs include bank certificates of deposit included in other current assets.

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

The following table summarizes our assets measured at fair value on a recurring basis presented in our Consolidated Condensed Balance Sheet as of June 30, 2010:

12

---

[Table of Contents](#)

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

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

|                                     | <b>Total<br/>Measure<br/>at<br/>Fair<br/>Value</b> | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|-------------------------------------|--|---|--|--|
| <b>(in thousands)</b>               |  |   |  |  |
| <b>Assets:</b>                      |  |   |  |  |
| Cash and cash equivalents           | \$ 77,717  | \$ 77,717   | \$   | \$   |
| Equity securities                   | 257,701  | 257,701   |  |  |
| Other current assets                | 20,986   | 20,736  | 250  |  |
| Other assets                        | 2,000  | 2,000   |  |  |
| Total assets measured at fair value | \$ 358,404   | \$ 358,154  | \$ 250   | \$   |

The following information presents the supplemental fair value information about long-term fixed-rate debt at June 30, 2010 and September 30, 2009:

|   | <b>June 30,<br/>2010</b> | <b>September 30,<br/>2009</b> |
|---|--------------------------|-------------------------------|
| <b>(in thousands)</b>                       |                          |                               |
| Carrying value of long-term fixed-rate debt | \$ 350.0                 | \$ 350.0                      |
| Fair value of long-term fixed-rate debt     | \$ 371.9                 | \$ 380.9                      |

The fair value for fixed-rate debt was estimated using discounted cash flows and interest rates currently being offered on credits with similar maturities and credit profiles. The outstanding line of credit and short-term debt bear interest at market rates and the cost of borrowings, if any, would approximate fair value. The debt was valued using a level 2 input.

## 6. Comprehensive Income

Comprehensive income (loss), net of related income taxes, is as follows (in thousands):

| <b>Three Months Ended<br/>June 30,</b> |             | <b>Nine Months Ended<br/>June 30,</b> |             |
|--|-------------|---------------------------------------|-------------|
| <b>2010</b>                            | <b>2009</b> | <b>2010</b>                           | <b>2009</b> |

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

|                                       |    |          |    |          |    |          |    |          |
|---------------------------------------|----|----------|----|----------|----|----------|----|----------|
| Net Income (loss)                     | \$ | (36,715) | \$ | 53,044   | \$ | 73,267   | \$ | 302,057  |
| Other comprehensive income (loss):    |    |          |    |          |    |          |    |          |
| Unrealized depreciation on securities |    | (80,736) |    | 90,833   |    | (82,121) |    | 54,581   |
| Income taxes                          |    | 30,276   |    | (34,516) |    | 30,795   |    | (20,741) |
|                                       |    | (50,460) |    | 56,317   |    | (51,326) |    | 33,840   |
|                                       |    |          |    |          |    |          |    |          |
| Minimum pension liability adjustments |    | 536      |    |          |    | 1,608    |    |          |
| Income taxes                          |    | (201)    |    |          |    | (603)    |    |          |
|                                       |    | 335      |    |          |    | 1,005    |    |          |
|                                       |    |          |    |          |    |          |    |          |
| Total comprehensive income (loss)     | \$ | (86,840) | \$ | 109,361  | \$ | 22,946   | \$ | 335,897  |

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

The components of accumulated other comprehensive income, net of related income taxes, are as follows (in thousands):

|  | June 30,<br>2010 | September 30,<br>2009 |
|--|------------------|-----------------------|
| Unrealized appreciation on securities              | \$ 79,271        | \$ 130,597            |
| Unrecognized actuarial loss and prior service cost | (17,141)         | (18,146)              |
| Accumulated other comprehensive income             | \$ 62,130        | \$ 112,451            |

7. Derivative Financial Instruments

We are exposed to market risk in the normal course of business operations due to ongoing investing and financing activities. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. ASC 815, *Derivatives and Hedging*, requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. We have not historically entered into derivative financial instruments for trading purposes or for speculation. For further information regarding our disclosures of an interest rate swap that expired in January 2010, refer to Note 10, Debt, of these Consolidated Condensed Financial Statements.

8. Cash Dividends

The \$0.05 cash dividend declared March 3, 2010, was paid June 1, 2010. On June 2, 2010, a cash dividend of \$0.06 per share was declared for shareholders of record on August 13, 2010, payable September 1, 2010. The dividend payable is included in accounts payable in the Consolidated Condensed Balance Sheet.

9. Stock-Based Compensation

We have one plan providing for common-stock based awards to employees and to non-employee Directors. The plan permits the granting of various types of awards including stock options and restricted stock. 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 the market price of the underlying stock on the date of grant. Stock options expire ten years after the grant date.



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

Vesting requirements are determined by the Human Resources Committee of our Board of Directors. Readers should refer to Note 5 of the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009 for additional information related to stock-based compensation.

We use the Black-Scholes formula to estimate the value of stock options granted. The fair value of the options is amortized to compensation expense on a straight-line basis over the requisite service periods of the stock awards, which are generally the vesting periods. We have the right to satisfy option exercises from treasury shares and from authorized but unissued shares.

On December 1, 2009, the plan was amended to provide for continued vesting (and accelerated vesting upon death) of restricted stock and stock options effective upon a participant becoming retirement eligible. A participant meets the definition of retirement eligible if the participant attains age 55 and has 15 or more years of continuous service as a full-time employee. The plan amendments apply retroactively. As a result of the continued vesting provisions, we incurred additional compensation cost of approximately \$4.7 million for the nine months ended June 30, 2010.

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

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

|                      | Three Months Ended<br>June 30, |          | Nine Months Ended<br>June 30, |          |
|----------------------|--------------------------------|----------|-------------------------------|----------|
|                      | 2010                           | 2009     | 2010                          | 2009     |
| Compensation expense |                                |          |                               |          |
| Stock options        | \$ 1,933                       | \$ 1,691 | \$ 9,521                      | \$ 5,205 |
| Restricted stock     | 1,016                          | 363      | 3,353                         | 1,087    |
|                      | \$ 2,949                       | \$ 2,054 | \$ 12,874                     | \$ 6,292 |

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, 2010 and 2009:

|                           | 2010  | 2009  |
|---------------------------|-------|-------|
| Risk-free interest rate   | 2.3%  | 1.7%  |
| Expected stock volatility | 49.9% | 43.4% |
| Dividend yield            | .5%   | .9%   |
| Expected term (in years)  | 5.8   | 5.8   |

*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.

*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.

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

A summary of stock option activity under the Plan for the three and nine months ended June 30, 2010 is presented in the following tables:

| Options                                      | Shares<br>(in thousands) | Three Months Ended June 30, 2010          |       | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value<br>(in millions) |
|--|--------------------------|---|-------|--|--|
|  |                          | Weighted-<br>Average<br>Exercise<br>Price |       |  |  |
| Outstanding at April 1, 2010                 | 5,745                    | \$  | 22.56 |  |  |
| Granted                                      |                          |   |       |  |  |
| Exercised                                    | (163)                    |   | 13.40 |  |  |
| Forfeited/Expired                            | (2)                      |   | 38.02 |  |  |
| Outstanding at June 30, 2010                 | 5,580                    | \$  | 22.83 | 5.6  | \$ 76.4  |
| Vested and expected to vest at June 30, 2010 | 5,503                    | \$  | 22.74 | 5.5  | \$ 75.8  |
| Exercisable at June 30, 2010                 | 3,896                    | \$  | 19.69 | 4.4  | \$ 65.6  |

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

| Options                        | Shares<br>(in thousands) | Nine Months Ended<br>June 30, 2010 |   |
|--------------------------------|--------------------------|------------------------------------|---|
|                                |                          |                                    | Weighted-<br>Average<br>Exercise<br>Price |
| Outstanding at October 1, 2009 | 5,401                    | \$                                 | 20.55                                     |
| Granted                        | 570                      |                                    | 38.02                                     |
| Exercised                      | (389)                    |                                    | 13.41                                     |
| Forfeited/Expired              | (2)                      |                                    | 38.02                                     |
| Outstanding at June 30, 2010   | 5,580                    | \$                                 | 22.83                                     |

The weighted-average fair value of options granted in the first quarter of fiscal 2010 was \$17.64. No options were granted in the second and third quarters of fiscal 2010.

The total intrinsic value of options exercised during the three and nine months ended June 30, 2010 was \$4.7 million and \$11.2 million, respectively.

As of June 30, 2010, the unrecognized compensation cost related to the stock options was \$11.9 million. That cost is expected to be recognized over a weighted-average period of 2.8 years.

RESTRICTED STOCK

Restricted stock grants consist of our common stock and are time vested over three to five years. Compensation expense is recognized on a straight-line basis over the vesting period. The fair value of restricted stock awards is determined based on the closing trading price of our shares on the grant date.

A summary of the status of the Company's restricted stock awards as of June 30, 2010 and changes during the nine months then ended is presented below:

Nine Months Ended

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

June 30, 2010

| Restricted Stock Awards | Shares<br>(in thousands) |    | Weighted-<br>Average<br>Grant-Date<br>Fair Value |
|-------------------------|--------------------------|----|--|
| Unvested at October 1,  | 177                      | \$ | 30.06  |
| Granted                 | 182                      |    | 38.02  |
| Vested                  | (70)                     |    | 29.36  |
| Forfeited               |                          |    |  |
| Unvested at June 30,    | 289                      | \$ | 35.23  |

As of June 30, 2010, there was \$5.8 million of total unrecognized compensation cost related to restricted stock granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.0 years.

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

10. Debt

At June 30, 2010 and September 30, 2009, we had the following unsecured long-term debt outstanding (in thousands):

|   | June 30,<br>2010 | September 30,<br>2009 |
|---|------------------|-----------------------|
| Unsecured intermediate debt issued August 15, 2002:               |                  |                       |
| Series C, due August 15, 2012, 6.46%                              | \$ 75,000        | \$ 75,000             |
| Series D, due August 15, 2014, 6.56%                              | 75,000           | 75,000                |
| Unsecured senior notes issued July 21, 2009:                      |                  |                       |
| Due July 21, 2012, 6.10%  | 40,000           | 40,000                |
| Due July 21, 2013, 6.10%  | 40,000           | 40,000                |
| 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                |
| Unsecured senior credit facility due December 18, 2011, .70%-.71% | 40,000           | 70,000                |
|   | \$ 390,000       | \$ 420,000            |
| Less long-term debt due within one year                           |                  |                       |
| Long-term debt  | \$ 390,000       | \$ 420,000            |

The terms of the fixed rate debt obligations require that we maintain a minimum ratio of debt to total capitalization.

We have \$200 million senior unsecured fixed-rate notes that mature over a period from July 2012 to July 2016. Interest on the notes will be paid semi-annually based on an annual rate of 6.10 percent. We will make five equal annual principal repayments of \$40 million starting on July 21, 2012. Financial covenants 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. The note purchase agreement also contains additional terms, conditions, and restrictions that we believe are usual and customary in unsecured debt arrangements for companies that are similar in size and credit quality.

We have an agreement with a multi-bank syndicate for a \$400 million senior unsecured credit facility maturing December 2011. While we have the option to borrow at the prime rate for maturities of less than 30 days, we anticipate that

the majority of all of the borrowings over the life of the facility will accrue interest at a spread over the London Interbank Bank Offered Rate (LIBOR). We pay a commitment fee based on the unused balance of the facility. The spread over LIBOR as well as the commitment fee is determined according to a scale based on a ratio of our total debt to total capitalization. The LIBOR spread ranges from .30 percent to .45 percent over LIBOR depending on the ratios. At June 30, 2010, the LIBOR spread on borrowings was .35 percent and the commitment fee was

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

.075 percent per annum. At June 30, 2010, we had two letters of credit totaling \$21.9 million under the facility and had \$40 million borrowed against the facility with \$338.1 million available to borrow. The advances bore interest at an average rate of .70 percent at June 30, 2010. Subsequent to June 30, 2010, we reduced the debt by a net \$10 million and currently have \$348.1 million available to borrow.

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Financial covenants in the facility require we 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 facility contains additional terms, conditions, and restrictions that we believe are usual and customary in unsecured debt arrangements for companies that are similar in size and credit quality. At June 30, 2010, we were in compliance with all debt covenants.

In January 2010, a \$105 million unsecured line of credit that matured was paid in full using operating cash flow and borrowings under the \$400 million facility. At the same time, an interest rate swap with the same maturity and a notional amount of \$105 million expired.

11. Income Taxes

Our effective tax rate from continuing operations for the first nine months of fiscal 2010 and 2009 was 34.1 percent and 38.3 percent, respectively. The Company's effective tax rate from continuing operations for the three months ended June 30, 2010 and 2009 was 40.3 percent and 34.2 percent, respectively. The effective rate differs from the U.S. federal statutory rate of 35.0 percent primarily due to state and foreign taxes.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months; however, we do not expect the change to have a material effect on results of operations or financial position.

12. Commitments and Contingencies

In conjunction with our current drilling rig construction program, purchase commitments for equipment, parts and supplies of approximately \$46.9 million are outstanding at June 30, 2010.

A lawsuit has been filed against us by a former customer for whom we performed drilling services with five rigs under term drilling contracts. The suit alleges, among other things, that we failed to perform drilling operations in accordance with good oilfield practice, breached express performance warranties, and made certain fraudulent representations regarding drilling performance. As a consequence, Plaintiff has prayed for actual and punitive damages. We have and will continue to vigorously defend this lawsuit. The outcome of this case remains uncertain and a loss estimate cannot be made. If we are unsuccessful in this litigation, then the amount of damages awarded could have a material adverse effect on our financial condition and results of operations. This case has been set for trial in late August 2010.



Various other 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.

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

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 and recognize income until realized. As discussed in Note 2, Discontinued Operations, property and equipment of our Venezuelan subsidiary was seized by the Venezuelan government on June 30, 2010. We are currently evaluating various remedies, including any recourse we may have against PDVSA or related parties, any remuneration or reimbursement that we might collect from PDVSA or related parties, and any other sources of recovery for our losses. 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 Condensed Financial Statements.

13. 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. Our primary international areas of operation include Colombia, Ecuador, Argentina, Mexico, Tunisia and other South American countries. The International Land operations have similar services, have similar types of customers, operate in a consistent manner and have similar economic and regulatory characteristics. Therefore, we have aggregated our International Land operations into one reportable segment. Our Venezuelan operation, which was historically an operating segment within the International Land Segment, was discontinued in the third quarter of fiscal 2010. Consequently, its operating results are excluded from the segment data tables below for all periods presented. Each reportable segment is a strategic business unit which is managed separately. Other includes non-reportable operating segments.

We evaluate segment performance based on income or loss from 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 is a non-GAAP financial measure of our performance, as it excludes 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.

Table of Contents

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

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

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 nine months ended June 30, 2010, and 2009, is shown in the following tables:

| (in thousands)       | External<br>Sales | Inter-<br>Segment | Total<br>Sales | Segment<br>Operating<br>Income (Loss) |
|----------------------|-------------------|-------------------|----------------|---------------------------------------|
| <b>June 30, 2010</b> |                   |                   |                |                                       |
| Contract Drilling:   |                   |                   |                |                                       |
| U.S. Land            | \$ 976,497        | \$                | \$ 976,497     | \$ 285,384                            |
| Offshore             | 153,186           |                   | 153,186        | 39,962                                |
| International Land   | 177,377           |                   | 177,377        | 32,786                                |
|                      | 1,307,060         |                   | 1,307,060      | 358,132                               |
| Other                | 9,145             | (612)             | 8,533          | (5,020)                               |
|                      | 1,316,205         | (612)             | 1,315,593      | 353,112                               |
| Eliminations         |                   | 612               | 612            |                                       |
| Total                | \$ 1,316,205      | \$                | \$ 1,316,205   | \$ 353,112                            |

| (in thousands)       | External<br>Sales | Inter-<br>Segment | Total<br>Sales | Segment<br>Operating<br>Income (Loss) |
|----------------------|-------------------|-------------------|----------------|---------------------------------------|
| <b>June 30, 2009</b> |                   |                   |                |                                       |
| Contract Drilling:   |                   |                   |                |                                       |
| U.S. Land            | \$ 1,172,076      | \$                | \$ 1,172,076   | \$ 483,571                            |
| Offshore             | 157,424           |                   | 157,424        | 43,270                                |
| International Land   | 147,940           |                   | 147,940        | 20,466                                |
|                      | 1,477,440         |                   | 1,477,440      | 547,307                               |
| Other                | 8,024             | 630               | 8,654          | (4,656)                               |
|                      | 1,485,464         | 630               | 1,486,094      | 542,651                               |
| Eliminations         |                   | (630)             | (630)          |                                       |
| Total                | \$ 1,485,464      | \$                | \$ 1,485,464   | \$ 542,651                            |

Summarized financial information of our reportable segments for the three months ended June 30, 2010, and 2009, is shown in the following tables:

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

| (in thousands)       | External<br>Sales | Inter-<br>Segment | Total<br>Sales | Segment<br>Operating<br>Income(Loss) |
|----------------------|-------------------|-------------------|----------------|--------------------------------------|
| <b>June 30, 2010</b> |                   |                   |                |                                      |
| Contract Drilling:   |                   |                   |                |                                      |
| U.S. Land            | \$ 366,989        | \$                | \$ 366,989     | \$ 103,138                           |
| Offshore             | 53,131            |                   | 53,131         | 11,231                               |
| International Land   | 60,045            |                   | 60,045         | 9,893                                |
|                      | 480,165           |                   | 480,165        | 124,262                              |
| Other                | 3,219             | (202)             | 3,017          | (1,803)                              |
|                      | 483,384           | (202)             | 483,182        | 122,459                              |
| Eliminations         |                   | 202               | 202            |                                      |
| Total                | \$ 483,384        | \$                | \$ 483,384     | \$ 122,459                           |

[Table of Contents](#)

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

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

| (in thousands)       | External<br>Sales | Inter-<br>Segment | Total<br>Sales | Segment<br>Operating<br>Income(Loss) |
|----------------------|-------------------|-------------------|----------------|--------------------------------------|
| <b>June 30, 2009</b> |                   |                   |                |                                      |
| Contract Drilling:   |                   |                   |                |                                      |
| U.S. Land            | \$ 282,358        | \$                | \$ 282,358     | \$ 96,593                            |
| Offshore             | 55,605            |                   | 55,605         | 12,723                               |
| International Land   | 43,882            |                   | 43,882         | 6,492                                |
|                      | 381,845           |                   | 381,845        | 115,808                              |
| Other                | 2,514             | 189               | 2,703          | (2,304)                              |
|                      | 384,359           | 189               | 384,548        | 113,504                              |
| Eliminations         |                   | (189)             | (189)          |                                      |
| Total                | \$ 384,359        | \$                | \$ 384,359     | \$ 113,504                           |

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

|   | Three Months Ended<br>June 30, |            | Nine Months Ended<br>June 30, |            |
|---|--------------------------------|------------|-------------------------------|------------|
|   | 2010                           | 2009       | 2010                          | 2009       |
|   | (in thousands)                 |            |                               |            |
| Segment operating income  | \$ 122,459                     | \$ 113,504 | \$ 353,112                    | \$ 542,651 |
| Gain from involuntary conversion of<br>long-lived assets                                      |                                | 264        |                               | 541        |
| Income from asset sales   | 2,249                          | 1,741      | 4,245                         | 4,706      |
| Corporate general and administrative<br>costs and corporate depreciation                      | (13,234)                       | (9,354)    | (38,793)                      | (29,478)   |
| Operating income  | 111,474                        | 106,155    | 318,564                       | 518,420    |
| Other income (expense):   |                                |            |                               |            |
| Interest and dividend income  | 940                            | 199        | 1,536                         | 2,362      |
| Interest expense  | (3,961)                        | (2,893)    | (12,693)                      | (9,147)    |
| Other   | 215                            | (49)       | 253                           | 51         |
| Total other income (expense)  | (2,806)                        | (2,743)    | (10,904)                      | (6,734)    |
| Income from continuing operations<br>before income taxes and equity in<br>income of affiliate | \$ 108,668                     | \$ 103,412 | \$ 307,660                    | \$ 511,686 |

|              | June 30,<br>2010 | September 30,<br>2009 |
|--------------|------------------|-----------------------|
|              | (in thousands)   |                       |
| Total Assets |                  |                       |

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

|  |    |           |    |           |
|--|----|-----------|----|-----------|
| U.S. Land                              | \$ | 3,088,384 | \$ | 2,955,574 |
| Offshore                               |    | 161,699   |    | 129,465   |
| International Land                     |    | 392,234   |    | 391,099   |
| Other                                  |    | 32,033    |    | 31,346    |
|  |    | 3,674,350 |    | 3,507,484 |
| Investments and Corporate Operations   |    | 389,797   |    | 501,000   |
| Total assets from continued operations |    | 4,064,147 |    | 4,008,484 |
| Discontinued operations                |    | 9,507     |    | 152,540   |
|  | \$ | 4,073,654 | \$ | 4,161,024 |

Table of Contents

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

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

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

|                    | Three Months Ended<br>June 30, |            | Nine Months Ended<br>June 30, |              |
|--------------------|--------------------------------|------------|-------------------------------|--------------|
|                    | 2010                           | 2009       | 2010                          | 2009         |
|                    | (in thousands)                 |            |                               |              |
| Operating revenues |                                |            |                               |              |
| United States      | \$ 408,084                     | \$ 330,944 | \$ 1,095,841                  | \$ 1,306,615 |
| Colombia           | 13,079                         | 17,595     | 43,030                        | 60,649       |
| Ecuador            | 13,083                         | 12,401     | 39,069                        | 39,174       |
| Argentina          | 14,683                         | 7,435      | 41,403                        | 33,229       |
| Other Foreign      | 34,455                         | 15,984     | 96,862                        | 45,797       |
| Total              | \$ 483,384                     | \$ 384,359 | \$ 1,316,205                  | \$ 1,485,464 |

## 14. Pensions and Other Post-retirement Benefits

The following provides information at June 30, 2010 and 2009 related to the Company-sponsored domestic defined benefit pension plan.

## Components of Net Periodic Benefit Cost

|                                | Three Months Ended<br>June 30, |          | Nine Months Ended<br>June 30, |          |
|--------------------------------|--------------------------------|----------|-------------------------------|----------|
|                                | 2010                           | 2009     | 2010                          | 2009     |
|                                | (in thousands)                 |          |                               |          |
| Interest Cost                  | \$ 1,194                       | \$ 1,217 | \$ 3,582                      | \$ 3,651 |
| Expected return on plan assets | (1,107)                        | (1,147)  | (3,321)                       | (3,441)  |
| Recognized net actuarial loss  | 536                            |          | 1,608                         |          |
| Net pension expense            | \$ 623                         | \$ 70    | \$ 1,869                      | \$ 210   |

## Employer Contributions



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

We contributed \$3.4 million to the Pension Plan during the nine months ended June 30, 2010 to fund distributions. We estimate additional contributions for the remainder of fiscal 2010 will be made only if needed to fund unexpected distributions.

### Foreign Plan

We maintain an unfunded pension plan in one of the international subsidiaries. Pension expense was approximately \$40,000 and \$113,000 for the three months ended June 30, 2010 and 2009, respectively. Pension expense was approximately \$308,000 and \$293,000 for the nine months ended June 30, 2010 and 2009, respectively.

### 15. 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 equipment as well as expropriation of a particular oil company operator's property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of our operations or on our ability to continue operations in certain areas.

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

16. Recently Issued Accounting Standards

ASC 715-20-65, *Transition related to SFAS 132R-1, Employers' Disclosures about Postretirement Benefit Plan Assets*, was issued by the Financial Accounting Standards Board ( FASB ) in December 2008. The new guidance requires employers of public and nonpublic companies to disclose more information about how investment allocation decisions are made, more information about major categories of assets, including concentration of risk and fair-value measurements, and the fair-value techniques and inputs used to measure plan assets. The disclosure requirements are effective for annual financial statements for years ending after December 15, 2009. The disclosure requirements will be adopted for our annual financial statements for the year ended September 30, 2010, on a prospective basis. We do not expect the adoption to have a material impact on the Consolidated Financial Statements.

On January 21, 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*. Effective December 15, 2009, we adopted the disclosure requirements requiring reporting entities to provide information about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy established by ASC 820, *Fair Value Measurements*. The adoption had no impact on these Consolidated Condensed Financial Statements. Effective for fiscal years beginning after December 15, 2010, a reconciliation of purchases, sales, issuance, and settlements of financial instruments valued with a Level 3 method, which is used to price the hardest to value instruments, will be required. We currently believe the adoption related to Level 3 financial instruments will have no impact on the Consolidated Financial Statements.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements* ( ASU 2010-09 ). ASU 2010-09 reiterates that an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued and removes the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. The updated guidance was effective upon issuance and was adopted by us in the second quarter of fiscal 2010.

Table of Contents

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

June 30, 2010

**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 2009 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, early termination of drilling contracts, 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, deterioration of credit markets, changes in general economic and political conditions, adverse weather conditions including hurricanes, rapid or unexpected changes in 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 2009 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. These 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. 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, 2010 vs. Three Months Ended June 30, 2009**

We reported income from continuing operations of \$64.9 million (\$0.61 per diluted share) from operating revenues of \$483.4 million for the third quarter ended June 30, 2010, compared with income from continuing operations of \$68.0 million (\$0.64 per diluted share) from operating revenues of \$384.4 million for the third quarter of fiscal year 2009. In both comparative periods, we had a loss from discontinued operations of \$101.6 million (\$0.95 loss per diluted share) and \$15.0 million (\$0.14 loss per diluted share), respectively. Including discontinued operations, we recorded a net loss of \$36.7 million (\$0.34 loss per diluted share) for the third quarter ended June 30, 2010, compared with net income of \$53.0 million (\$0.50 per diluted share) for the third quarter ended June 30, 2009. Income from continued operations for the third quarter of fiscal 2010 includes approximately \$1.5 million (\$0.01 per diluted share) of after-tax gains from the sale of assets. Income from continued operations for the third quarter of fiscal 2009 includes approximately \$1.1 million (\$0.01 per diluted share) of after-tax gains from the sale of

assets.

#### **DISCONTINUED OPERATIONS**

On June 30, 2010, the Official Gazette of Venezuela published the Decree of Venezuelan President Hugo Chavez, which authorized the forceful acquisition of eleven rigs owned by our Venezuelan subsidiary. The Decree also authorized the seizure of all the personal and real property and other improvements used by our Venezuelan subsidiary in its drilling operations. The seizing of our assets became effective June 30, 2010 and meets the criteria established for recognition as discontinued operations under accounting standards for presentation

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

June 30, 2010

of financial statements. Therefore, as of June 30, 2010, operations from the Venezuelan subsidiary, an operating segment within the International Land Segment, have been classified as discontinued operations in our Consolidated Condensed Financial Statements. All historical statements have been reclassified to conform to this presentation.

Our revenue in Venezuela was from providing drilling services to Petroleos de Venezuela, S.A. (PDVSA), the Venezuelan state-owned petroleum company. We determined, as of the beginning of the second quarter of fiscal 2009 and forward, that the revenue recognition criteria in Venezuela was no longer met as collectability of revenue was not reasonably assured, primarily due to the uncertainty of the timing of collectability. However, up until the time of the seizing of our assets, we continued to receive payments from PDVSA and were in discussions with PDVSA officials regarding payments and the possibility of contract negotiations to put our rigs back to work.

As a result of the seizing of our assets in the third quarter of fiscal 2010, we have derecognized our Venezuela property and equipment, \$65.0 million, and warehouse inventory, \$5.1 million, resulting in a loss of approximately \$70.1 million. Accounts receivable, payables and other deferred charges and credits, netting to approximately \$10.7 million, were also written off because the related future cash inflows and outflows associated with them are no longer expected to occur. At June 30, 2010, we had approximately \$31.3 million (U.S. currency equivalent) cash balances in Venezuela. We have, since July 22, 2008, had an outstanding application with the Venezuelan government requesting approval to convert bolivar fuerte (Bsf) cash balances to U.S. dollars. If approval is ever received, our Venezuelan subsidiary would remit approximately \$14.2 million as a dividend to its U.S. based parent. Because of the seizure of our assets by the Venezuelan government and our inability to obtain approval of the dividend, we also impaired approximately \$21.8 million cash as of June 30, 2010. The remaining cash was classified as restricted cash, a current asset from discontinued operations, to meet remaining current obligations.

We are currently evaluating various remedies, including any recourse we may have against PDVSA or related parties, any remuneration or reimbursement that we might collect from PDVSA or related parties, and any other sources of recovery for our losses. 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 Condensed Consolidated Financial Statements.

On January 8, 2010, the Venezuelan government devalued its currency. The official exchange rate was devalued from 2.15 Bsf to each U.S. dollar to 4.30 Bsf. As a result of the devaluation, we recorded an exchange loss of approximately \$19.7 million during the second quarter of fiscal 2010. The devaluation is included in discontinued operations.

Summarized operating results from discontinued operations are as follows:

**Three Months Ended  
June 30,**

**Nine Months Ended  
June 30,**

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

|                                   | 2010         | 2009        | 2010         | 2009        |
|-----------------------------------|--------------|-------------|--------------|-------------|
| Revenue                           | \$ 6,787     | \$ 3,408    | \$ 13,534    | \$ 46,357   |
| Loss before income taxes          | (101,548)    | (13,717)    | (127,160)    | (18,451)    |
| Income tax expense                | (50)         | (1,260)     | (2,363)      | (5,062)     |
| Loss from discontinued operations | \$ (101,598) | \$ (14,977) | \$ (129,523) | \$ (23,513) |

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

June 30, 2010

Significant categories of assets and liabilities from discontinued operations are as follows:

|                                    | June 30,<br>2010 | September 30,<br>2009 |
|------------------------------------|------------------|-----------------------|
| Cash and cash equivalents          | \$               | \$ 45,344             |
| Accounts receivable                |                  | 12,841                |
| Other current assets               | 9,507            | 22,721                |
| Total current assets               | 9,507            | 80,906                |
| Property, plant and equipment, net |                  | 71,634                |
| Total assets                       | \$ 9,507         | \$ 152,540            |
| Total current liabilities          | \$ 7,688         | \$ 16,983             |
| Total noncurrent liabilities       | 1,819            | 10,205                |
| Total liabilities                  | \$ 9,507         | \$ 27,188             |

Liabilities consist of municipal and income taxes payable and social obligations due within the country of Venezuela.

The following tables summarize operations by business segment for the three months ended June 30, 2010 and 2009. 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 13 to the Consolidated Condensed Financial Statements.

|                                    | Three Months Ended June 30,                     |         |            |
|------------------------------------|---|---------|------------|
|                                    | 2010  |         | 2009       |
|                                    | (in thousands, except days and per day amounts) |         |            |
| <b><u>U.S. LAND OPERATIONS</u></b> |   |         |            |
| Revenues                           | \$  | 366,989 | \$ 282,358 |
| Direct operating expenses          |   | 206,707 | 133,041    |
| General and administrative expense |   | 5,458   | 4,133      |
| Depreciation                       |   | 51,686  | 48,591     |
| Segment operating income           | \$  | 103,138 | \$ 96,593  |
|                                    |   |         |            |
| Revenue days                       |   | 14,374  | 9,302      |
| Average rig revenue per day        | \$  | 23,690  | \$ 28,325  |
| Average rig expense per day        | \$  | 12,539  | \$ 12,273  |
| Average rig margin per day         | \$  | 11,151  | \$ 16,052  |
| Rig utilization                    |   | 76%     | 51%        |

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

U.S. Land segment operating income increased to \$103.1 million for the third quarter of fiscal 2010 compared to \$96.6 million in the same period of fiscal 2009. Revenues were \$367.0 million and \$282.4 million in the third quarter of fiscal 2010 and 2009, respectively. Included in U.S. land revenues for the three months ended June 30, 2010 and 2009 are reimbursements for out-of-pocket expenses of \$26.5 million and \$18.9 million, respectively. Also included in U.S. land revenues for the third quarter of fiscal 2010 and 2009 is approximately \$9.9 million and \$40.9 million, respectively, attributable to early termination related revenue and customer requested delivery delay revenue for new FlexRigs® (hereinafter FlexRig ).



Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

June 30, 2010

The average revenue per day for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 decreased \$4,635 of which \$3,711 is from a decrease in early termination related revenue and customer requested delivery delay revenue for the new FlexRigs in the comparable quarters. The remaining decrease of \$924 is a result of lower average dayrates in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009.

U.S. land rig utilization increased to 76 percent for the third quarter of fiscal 2010 compared to 51 percent for the third quarter of fiscal 2009. U.S. land rig activity days for the third quarter of fiscal 2010 were 14,374 compared with 9,302 for the same period of fiscal 2009, with an average of 158.0 and 102.2 rigs working during the third quarter of fiscal 2010 and 2009, respectively. The increase in rig days and average rigs working is attributable to the U.S. Land experiencing some recovery in the third quarter of fiscal 2010 compared to rigs becoming idle in the third quarter of fiscal 2009.

During fiscal 2009, the economic recession, including the decrease in oil and gas prices and deterioration in the credit markets, had an effect on customer spending. As a result, the industry's active land drilling rig count in the U.S. land market declined by over fifty percent from the fall of 2008 to the summer of 2009. Since June 2009, the industry's U.S. land rig count has been experiencing a steady recovery, but the rig count still remains about 25 percent below the peak level reported during the fall of 2008. At June 30, 2010, 170 out of 215 existing rigs in the U.S. Land segment were generating revenue. Of the 170 rigs generating revenue, 116 were under fixed term contracts which included four new build rigs on customer requested delivery delays, and 54 were working in the spot market. At July 31, 2010, the number of existing rigs under fixed term contracts in the segment increased to 121 rigs under term contracts, which includes two new build rigs on customer requested delivery delays, and the number of rigs working in the spot market increased to 57. Delayed FlexRigs do not generate revenue days and are not considered for purposes of calculating and reporting rig utilization rates.

|                                    | Three Months Ended June 30,                     |        |      |        |
|------------------------------------|---|--------|------|--------|
|                                    | 2010  |        | 2009 |        |
|                                    | (in thousands, except days and per day amounts) |        |      |        |
| <b><u>OFFSHORE OPERATIONS</u></b>  |   |        |      |        |
| Revenues                           | \$  | 53,131 | \$   | 55,605 |
| Direct operating expenses          |   | 37,382 |      | 38,854 |
| General and administrative expense |   | 1,329  |      | 1,004  |
| Depreciation                       |   | 3,189  |      | 3,024  |
| Segment operating income           | \$  | 11,231 | \$   | 12,723 |
|                                    |   |        |      |        |
| Revenue days                       |   | 638    |      | 763    |
| Average rig revenue per day        | \$  | 46,138 | \$   | 45,531 |
| Average rig expense per day        | \$  | 25,356 | \$   | 26,976 |
| Average rig margin per day         | \$  | 20,782 | \$   | 18,555 |
| Rig utilization                    |   | 78%    |      | 93%    |

Offshore revenues include reimbursements for out-of-pocket expenses of \$13.8 million and \$13.4 million for the three months ended June 30, 2010 and 2009, respectively.

We estimate that segment operating income for the three months ended June 30, 2010, was negatively impacted by approximately 3 percent due to lower standby rates received as a result of the government imposed deepwater drilling moratorium.

[Table of Contents](#)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

June 30, 2010

At June 30, 2010, seven of our nine platform rigs were active. One of the idle rigs is expected to begin working late in the first quarter of fiscal 2011. A rig currently working is expected to become idle during the fourth quarter of fiscal 2010. The contract for the rig currently located offshore Trinidad is expected to be on standby in the fourth quarter of fiscal 2010 and then start back to work during the second fiscal quarter of 2011.

|   | Three Months Ended June 30,                     |           |
|---|---|-----------|
|   | 2010  | 2009      |
|   | (in thousands, except days and per day amounts) |           |
| <b><u>INTERNATIONAL LAND OPERATIONS</u></b> |   |           |
| Revenues                                    | \$ 60,045                                       | \$ 43,882 |
| Direct operating expenses                   | 41,113  | 32,051    |
| General and administrative expense          | 771   | 502       |
| Depreciation                                | 8,268   | 4,837     |
| Segment operating income                    | \$ 9,893  | \$ 6,492  |
|   |   |           |
| Revenue days                                | 1,881   | 1,121     |
| Average rig revenue per day                 | \$ 30,669                                       | \$ 36,519 |
| Average rig expense per day                 | \$ 20,477                                       | \$ 24,098 |
| Average rig margin per day                  | \$ 10,192                                       | \$ 12,421 |
| Rig utilization                             | 76%   | 69%       |

International land segment operating income for the third quarter of fiscal 2010 was \$9.9 million, compared to operating income of \$6.5 million in the same period of fiscal 2009. Rig utilization for international land operations was 76 percent for the third quarter of fiscal 2010, compared with 69 percent for the third quarter of fiscal 2009. During the current quarter, an average of 20.4 rigs worked compared to an average of 12.2 rigs in the third quarter of fiscal 2009.

Revenues in the third quarter of fiscal 2010 increased by \$16.2 million compared to the third quarter of fiscal 2009, primarily the result of additional rigs working in the segment during the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. The average revenue per day decreased in the third quarter of 2010 compared to the third quarter of 2009, primarily due to early termination revenue recognized in 2009. Included in international land revenues for the three months ended June 30, 2010 and 2009 are reimbursements for out-of-pocket expenses of \$2.4 million and \$2.9 million, respectively.

Depreciation expense increased due to rigs transferring to the International Land segment in late fiscal 2009 and the addition of new FlexRigs during fiscal 2009 and 2010.

## RESEARCH AND DEVELOPMENT

For the three months ended June 30, 2010 and 2009, we incurred \$3.3 million and \$2.8 million, respectively, of research and development expenses related to ongoing development of a rotary steerable system.

## **OTHER**

General and administrative expenses increased to \$20.1 million in the third quarter of fiscal 2010 from \$14.2 million in the third quarter of fiscal 2009. The \$5.9 million increase is primarily due to increases in employee salaries and bonus accruals of \$3.2 million, additional stock-based compensation expense of \$0.9 million and additional pension expense in fiscal 2010 of \$0.6 million.

Income tax expense increased to \$43.8 million in the third quarter of fiscal 2010 from \$35.4 million in the third quarter of fiscal 2009, with the effective tax rate from continuing operations increasing to 40.3 percent from 34.2 percent for the two comparable quarters.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

June 30, 2010

Interest expense was \$4.0 million and \$2.9 million in the third quarter of fiscal 2010 and 2009, respectively. Capitalized interest, all attributable to our rig construction, was \$1.6 million for both comparable quarters. Interest expense before capitalized interest increased \$1.1 million during the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 primarily due to additional borrowings under a fixed-rate credit facility obtained in July 2009.

**Nine Months Ended June 30, 2010 vs. Nine Months Ended June 30, 2009**

We reported income from continuing operations of \$202.8 million (\$1.89 per diluted share) from operating revenues of \$1.3 billion for the nine months ended June 30, 2010, compared with income from continuing operations of \$325.6 million (\$3.05 per diluted share) from operating revenues of \$1.5 billion for the first nine months of fiscal year 2009. In both comparative periods, we had a loss from discontinued operations of \$129.5 million (\$1.21 loss per diluted share) and \$23.5 million (\$0.22 loss per diluted share), respectively. Including discontinued operations, we recorded net income of \$73.3 million (\$0.68 per diluted share) for the nine months ended June 30, 2010, compared with net income of \$302.1 million (\$2.83 per diluted share) for the nine months ended June 30, 2009. Included in income from continuing operations are after-tax gains from the sale of assets of approximately \$2.8 million (\$0.03 per diluted share) for the nine months ended June 30, 2010, compared to approximately \$2.8 million (\$0.03 per diluted share) for the nine months ended June 30, 2009. Also included in income from continuing operations for fiscal 2009 is approximately \$0.3 million of after-tax gains from involuntary conversion of long-lived assets associated with Hurricane Katrina losses.

The following tables summarize operations by business segment for the nine months ended June 30, 2010 and 2009. 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 13 to the Consolidated Condensed Financial Statements.

|                                    | Nine Months Ended March 31,                     |         |    |           |
|------------------------------------|---|---------|----|-----------|
|                                    | 2010  | 2009    |    |           |
|                                    | (in thousands, except days and per day amounts) |         |    |           |
| <b><u>U.S. LAND OPERATIONS</u></b> |   |         |    |           |
| Revenues                           | \$  | 976,497 | \$ | 1,172,076 |
| Direct operating expenses          |   | 521,486 |    | 538,380   |
| General and administrative expense |   | 18,193  |    | 12,834    |
| Depreciation                       |   | 151,434 |    | 137,291   |
| Segment operating income           | \$  | 285,384 | \$ | 483,571   |
|                                    |   |         |    |           |
| Revenue days                       |   | 38,748  |    | 38,153    |
| Average rig revenue per day        | \$  | 23,708  | \$ | 28,791    |
| Average rig expense per day        | \$  | 11,965  | \$ | 12,182    |
| Average rig margin per day         | \$  | 11,743  | \$ | 16,609    |

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

Rig utilization

69%

72%

U.S. Land segment operating income in the first nine months of fiscal 2010 decreased to \$285.4 million from \$483.6 million in the first nine months of fiscal 2009. Revenues were \$976.5 million in the first nine months of fiscal 2010, compared with \$1.2 billion in the same period of fiscal 2009. Included in U.S. land revenues for the nine months ended June 30, 2010 and 2009 are reimbursements for out-of-pocket expenses of \$57.8 million and \$73.6 million, respectively. Also included in U.S. land revenues for fiscal 2010 and 2009 is approximately \$35.9 million and \$140.9 million, respectively, attributable to early termination related revenue and customer requested delivery delay revenue for new FlexRigs.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

June 30, 2010

The average revenue per day for the nine months ended June 30, 2010 compared to the nine months ended June 30, 2009 decreased \$5,083 of which \$2,765 is from a decrease in early termination related revenue and customer requested delivery delay revenue for the new FlexRigs in the comparable quarters. The remaining decrease of \$2,318 is a result of lower average dayrates in the first nine months of fiscal 2010 compared to the same period of fiscal 2009.

U.S. land rig utilization decreased to 69 percent for the nine months ended June 30, 2010 compared to 72 percent for the same period of fiscal 2009. U.S. land rig activity days for the first nine months of fiscal 2010 were 38,748 compared with 38,153 for the same period of fiscal 2009, with an average of 141.9 and 139.8 rigs working during the first nine months of fiscal 2010 and 2009, respectively. The increase in rig days and average rigs working is attributable to the segment experiencing some recovery, primarily in the second and third quarters of fiscal 2010 compared to rigs becoming idle in fiscal 2009.

During fiscal 2009, the economic recession, including the decrease in oil and gas prices and deterioration in the credit markets, had an effect on customer spending. As a result, the industry's active land drilling rig count in the U.S. land market declined by over fifty percent from the fall of 2008 to the summer of 2009. Since June 2009, the industry's U.S. land rig count has been experiencing a steady recovery, but the rig count still remains about 25 percent below the peak level reported during the fall of 2008. At June 30, 2010, 170 out of 215 existing rigs in the U.S. Land segment were generating revenue. Of the 170 rigs generating revenue, 116 were under fixed term contracts which included four new build rigs on customer requested delivery delays, and 54 were working in the spot market. At July 31, 2010, the number of existing rigs under fixed term contracts in the segment increased to 121 rigs under term contracts, which includes two new build rigs on customer requested delivery delays, and the number of rigs working in the spot market increased to 57. Delayed FlexRigs do not generate revenue days and are not considered for purposes of calculating and reporting rig utilization rates.

|                                    | Nine Months Ended June 30,                      |         |      |         |
|------------------------------------|---|---------|------|---------|
|                                    | 2010  |         | 2009 |         |
|                                    | (in thousands, except days and per day amounts) |         |      |         |
| <b><u>OFFSHORE OPERATIONS</u></b>  |   |         |      |         |
| Revenues                           | \$  | 153,186 | \$   | 157,424 |
| Direct operating expenses          |   | 99,654  |      | 102,019 |
| General and administrative expense |   | 4,437   |      | 3,120   |
| Depreciation                       |   | 9,133   |      | 9,015   |
| Segment operating income           | \$  | 39,962  | \$   | 43,270  |
|                                    |   |         |      |         |
| Revenue days                       |   | 1,998   |      | 2,294   |
| Average rig revenue per day        | \$  | 49,218  | \$   | 48,994  |
| Average rig expense per day        | \$  | 26,240  | \$   | 27,516  |
| Average rig margin per day         | \$  | 22,978  | \$   | 21,478  |
| Rig utilization                    |   | 81%     |      | 93%     |

Offshore revenues include reimbursements for out-of-pocket expenses of \$26.4 million and \$25.6 million for the nine months ended June 30, 2010 and 2009, respectively.

At June 30, 2010, seven of our nine platform rigs were active.



[Table of Contents](#)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

June 30, 2010

|   | Nine Months Ended June 30,                      |         |    |         |
|---|---|---------|----|---------|
|   | 2010  | 2009    |    |         |
|   | (in thousands, except days and per day amounts) |         |    |         |
| <b><u>INTERNATIONAL LAND OPERATIONS</u></b> |   |         |    |         |
| Revenues                                    | \$  | 177,377 | \$ | 147,940 |
| Direct operating expenses                   |   | 120,374 |    | 112,722 |
| General and administrative expense          |   | 1,978   |    | 1,709   |
| Depreciation                                |   | 22,239  |    | 13,043  |
| Segment operating income                    | \$  | 32,786  | \$ | 20,466  |
|   |   |         |    |         |
| Revenue days                                |   | 5,278   |    | 3,681   |
| Average rig revenue per day                 | \$  | 32,173  | \$ | 37,046  |
| Average rig expense per day                 | \$  | 21,337  | \$ | 27,007  |
| Average rig margin per day                  | \$  | 10,836  | \$ | 10,039  |
| Rig utilization                             |   | 68%     |    | 80%     |

International land segment operating income for the first nine months of fiscal 2010 was \$32.8 million, compared to operating income of \$20.5 million in the same period of fiscal 2009. Rig utilization for international land operations was 68 percent for the first nine months of fiscal 2010, compared with 80 percent for the first nine months of fiscal 2009. During the first nine months of fiscal 2010, an average of 19.3 rigs worked compared to an average of 13.5 rigs in the first nine months of fiscal 2009.

Revenues segment operating income in the first nine months of fiscal 2010 increased compared to the first nine months of fiscal 2009, primarily the result of additional rigs working in the segment during the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. Included in international land revenues for the nine months ended June 30, 2010 and 2009 are reimbursements for out-of-pocket expenses of \$7.6 million and \$11.6 million, respectively.

Depreciation expense increased due to rigs transferring to the International Land segment in late fiscal 2009 and the addition of new FlexRigs during fiscal 2009 and 2010.

## RESEARCH AND DEVELOPMENT

For the nine months ended June 30, 2010 and 2009, we incurred \$8.4 million and \$6.6 million, respectively, of research and development expenses related to ongoing development of a rotary steerable system.

**OTHER**

General and administrative expenses increased to \$61.3 million in the first nine months of fiscal 2010 from \$45.5 million in the first nine months of fiscal 2009. The \$15.8 million increase is partially due to an increase in stock-based compensation of \$6.6 million. The increase in stock-based compensation is comprised of additional expense of \$4.7 million resulting from a change in our Long-Term Incentive Plan which permitted continuing equity vesting after retirement, and \$1.9 million expense resulting from options granted in fiscal 2010 having a higher grant price and value than options amortizing at June 30, 2009. Also contributing to increased general and administrative expenses in fiscal 2010 were additional pension expense of \$1.7 million and an increase of \$6.8 million from increases in employee salaries, an increase in the number of employees and an increase in bonus accruals.

Equity in income of affiliate, net of income tax, was \$10.1 million in first nine months of fiscal 2009. Effective April 1, 2009, we determined we no longer exercised significant influence and discontinued accounting for the investee using the equity method.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

June 30, 2010

Income tax expense decreased to \$104.9 million in the first nine months of fiscal 2010 from \$196.2 million in the first nine months of fiscal 2009, with the effective tax rate from continuing operations decreasing to 34.1 percent from 38.3 percent for the two comparable periods.

Interest expense was \$12.7 million and \$9.1 million for the nine months ended June 30, 2010 and 2009, respectively. Capitalized interest, all attributable to our rig construction, was \$5.1 and \$4.9 million for the comparable periods. Interest expense before capitalized interest increased \$3.8 million during the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009 primarily due to additional borrowings under a fixed-rate credit facility obtained in July 2009.

**LIQUIDITY AND CAPITAL RESOURCES**

Liquidity

Cash and cash equivalents decreased to \$77.7 million at June 30, 2010 from \$96.1 million at September 30, 2009. The following table provides a summary of cash flows for the nine-month period ended June 30, (in thousands):

Net Cash provided (used) by:

|  | <b>2010</b> |           | <b>2009</b> |           |
|--|-------------|-----------|-------------|-----------|
| Operating activities                             | \$          | 333,037   | \$          | 734,455   |
| Investing activities                             |             | (201,458) |             | (743,680) |
| Financing activities                             |             | (150,004) |             | 53,329    |
| Increase (decrease) in cash and cash equivalents | \$          | (18,425)  | \$          | 44,104    |

Operating activities

Cash flows from operating activities were approximately \$333.0 million for the nine months ended June 30, 2010 compared to approximately \$734.5 million for the same period ended June 30, 2009. The decrease in cash provided from operating activities is primarily due to decreases in net income and changes during the comparable nine month periods in accounts receivable and accrued liabilities. Accounts receivable increased in the nine months ended June 30, 2010 as drilling activity improved compared to a decrease in the nine months ended June 30, 2009 as we began to see a decline in activity. The change in accrued liabilities is due to an increase in drilling activity and the associated accruals for employee bonuses and other expenses.

Investing activities

Capital expenditures decreased \$514.3 million primarily attributable to the decreased building of new FlexRigs.

Financing activities

During the nine months ended June 30, 2010, we reduced our outstanding debt by \$135 million compared to net additional borrowings of \$58.3 million during the nine months ended June 30, 2009. Checks issued but not presented to the bank for payment may create negative book cash balances which, where applicable, are included in accounts payable and included as a financing activity. Comparing the nine months ended June 30, 2010 and 2009, we had a reduction in our bank overdraft position of \$11.0 million.

Other Liquidity

Funds generated by operating activities, available cash and cash equivalents, and credit facilities continue to be our significant sources of liquidity. We believe these sources of liquidity will be sufficient to sustain operations and finance estimated capital expenditures, including rig construction, for fiscal 2010. There can be no assurance that we will continue to generate cash flows at current levels or obtain additional financing. Our indebtedness totaled \$390 million at June 30, 2010. For additional information regarding debt agreements, refer to Note 10 of the Consolidated Condensed Financial Statements.

# Table of Contents

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

June 30, 2010

### 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, 2010 and September 30, 2009 was \$2,680 million and \$2,528 million, respectively. Approximately 89.3 percent of the June 30, 2010 backlog is not reasonably expected to be filled in fiscal 2010. Term contracts customarily provide for termination at the election of the customer with an early termination payment to be paid to us if a contract is terminated prior to the expiration of the fixed term. However, under certain limited circumstances, such as destruction of a drilling rig, bankruptcy, sustained unacceptable performance by us, or delivery of a rig beyond certain grace and/or liquidated damage periods, no early termination payment would be paid to us. In addition, a portion of the backlog represents term contracts for new rigs that will be constructed in the future. We obtain certain key rig components from a single or limited number of vendors or fabricators. Certain of these vendors or fabricators are thinly capitalized independent companies located on the Texas Gulf Coast. Therefore, disruptions in rig component deliveries may occur. Accordingly, the actual amount of revenue earned may vary from the backlog reported. See the risk factors under Item 1A. Risk Factors of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on November 25, 2009, regarding fixed term contract risk, operational risks, including weather, and vendors that are limited in number and thinly capitalized.

The following table sets forth the total backlog by reportable segment as of June 30, 2010 and September 30, 2009, and the percentage of the June 30, 2010 backlog not reasonably expected to be filled in fiscal 2010:

| Reportable Segment | 06/30/2010 | Total Backlog<br>(in millions) | 09/30/2009 | Percentage Not Reasonably<br>Expected to be Filled in Fiscal 2010 |       |
|--------------------|------------|--------------------------------|------------|---|-------|
| U.S. Land          | \$         | 2,228                          | \$         | 2,016   | 89.2% |
| Offshore           |            | 151                            |            | 169   | 93.4% |
| International Land |            | 301                            |            | 343   | 87.7% |
|                    | \$         | 2,680                          | \$         | 2,528   |       |

### Capital Resources

In June 2010, we announced we had increased our capital expenditures estimate for fiscal 2010 by \$20 million to \$350 million. This increase was mostly attributable to higher maintenance capital requirements due to higher levels of activity.

During fiscal 2010 we have announced agreements to build and operate a total of 19 new FlexRigs under multi-year term contracts. At July 31, 2010, we had 15 remaining rigs under construction. During the nine months ended June 30, 2010, we completed nine FlexRigs that are under fixed term contracts. Two additional new FlexRigs under fixed term contracts were completed by the end of July 2010. Like those completed in prior fiscal periods, each of these new FlexRigs are committed to work for an exploration and production company under a fixed term contract, performing drilling services on a daywork contract basis.

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

Capital expenditures were \$220.2 million and \$734.5 million for the first nine months of fiscal 2010 and 2009, respectively. Capital expenditures decreased from 2009 primarily due to the reduction in the number of new rigs completed during the comparable quarters.

There were no other significant changes in our financial position since September 30, 2009.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

June 30, 2010

**MATERIAL COMMITMENTS**

Material commitments as reported in our 2009 Annual Report on Form 10-K have not changed significantly at June 30, 2010.

**CRITICAL ACCOUNTING POLICIES**

Our accounting policies that are critical or the most important to understand our financial condition and results of operations and that require management to make the most difficult judgments are described in our 2009 Annual Report on Form 10-K. There have been no material changes in these critical accounting policies other than the adoption of ASC 260-10-45, *Earnings per Share*, on October 1, 2009. The adoption of this did not have a material impact on our financial position, results of operations or cash flows. The adoption of ASC 260-10-45 is included in Note 3 to the Consolidated Condensed Financial Statements.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

ASC 715-20-65, *Transition related to SFAS 132R-1, Employers' Disclosures about Postretirement Benefit Plan Assets*, was issued by the Financial Accounting Standards Board (FASB) in December 2008. The new guidance requires employers of public and nonpublic companies to disclose more information about how investment allocation decisions are made, more information about major categories of plan assets, including concentration of risk and fair-value measurements, and the fair-value techniques and inputs used to measure plan assets. The disclosure requirements are effective for annual financial statements for years ending after December 15, 2009. The disclosure requirements will be adopted for our annual financial statements for the year ended September 30, 2010, on a prospective basis. We do not expect the adoption to have a material impact on the Consolidated Financial Statements.

On January 21, 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements*. Effective December 15, 2009, we adopted the disclosure requirements requiring reporting entities to provide information about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy established by ASC 820, *Fair Value Measurements*. The adoption had no impact on these Consolidated Condensed Financial Statements. Effective for fiscal years beginning after December 15, 2010, a reconciliation of purchases, sales, issuance, and settlements of financial instruments valued with a Level 3 method, which is used to price the hardest to value instruments, will be required. We currently believe the adoption related to Level 3 financial instruments will have no impact on the Consolidated Financial Statements.

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

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements* ( ASU 2010-09 ). ASU 2010-09 reiterates that an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued and removes the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. The updated guidance was effective upon issuance and was adopted by us in the second quarter of fiscal 2010.



Table of Contents

PART I. FINANCIAL INFORMATION

June 30, 2010

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of our market risks, see

- Note 5 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 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 25, 2009;
- Note 7 and Note 10 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to interest rate risk are incorporated herein by reference; and
- Note 2 and Note 15 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to foreign currency exchange rate risk are incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was performed with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2010, 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.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1A. 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 equipment as well as expropriation of a particular oil company operator's property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of our operations or on our ability to continue operations in certain areas.

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, 2010, approximately 14 percent of our consolidated operating revenues were generated from the international contract drilling business. During the nine months ended June 30, 2010, approximately 70 percent of the international operating revenues were from operations in South America and approximately 68 percent of South American operating revenues were from Argentina and Colombia.

Reference is made to the risk factors pertaining to currency devaluation and receivable balances in Venezuela, interest rate risk and the Company's securities portfolio in Item 1A of Part 1 of the Company's Form 10-K for the year ended September 30, 2009. In order to update these risk factors for developments that have occurred during the first three months of fiscal 2010, the risk factors are hereby amended and updated by reference to, and incorporation herein of, Notes 2, 5, 7, 10 and 15 to the Consolidated Condensed Financial Statements contained in Item 1 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, 2009.

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<br>Number | Description   |
|-------------------|---|
| 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, 2010, filed on August 5, 2010, formatted in XBRL: (i) the Consolidated Condensed Statements of Income, (ii) the Consolidated Condensed Balance Sheets, (iii) the Consolidated Condensed Statements of Stockholders' Equity, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements tagged as blocks of text. |

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 5, 2010

By:

/S/HANS C. HELMERICH  
Hans C. Helmerich, President

Date: August 5, 2010

By:

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

## 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   |
|----------------|---|
| 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, 2010, filed on August 5, 2010, formatted in XBRL: (i) the Consolidated Condensed Statements of Income, (ii) the Consolidated Condensed Balance Sheets, (iii) the Consolidated Condensed Statements of Stockholders' Equity, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements tagged as blocks of text. |