

HELMERICH & PAYNE INC
Form 10-Q
May 01, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended: **March 31, 2015**

OR

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

For the transition period from _____ to _____

Commission File Number: **1-4221**

HELMERICH & PAYNE, INC.

(Exact name of registrant as specified in its charter)

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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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 April 30, 2015
107,654,499

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share and per share amounts)

ITEM 1. FINANCIAL STATEMENTS

	March 31, 2015	September 30, 2014 (as adjusted)
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 719,127	\$ 360,909
Accounts receivable, less reserve of \$4,592 at March 31, 2015 and \$4,597 at September 30, 2014	623,706	705,214
Inventories	124,269	106,241
Deferred income taxes	14,649	16,519
Prepaid expenses and other	79,132	80,912
Current assets of discontinued operations	7,486	7,206
Total current assets	1,568,369	1,277,001
Investments	164,648	236,644
Property, plant and equipment, net	5,572,818	5,188,544
Other assets	38,315	18,809
Total assets	\$ 7,344,150	\$ 6,720,998
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Long-term debt due within one year less unamortized debt issuance costs	\$ 39,207	\$ 39,635
Accounts payable	172,373	182,031
Accrued liabilities	176,256	282,278
Current liabilities of discontinued operations	3,309	3,217
Total current liabilities	391,145	507,161
Noncurrent liabilities:		
Long-term debt less unamortized discount and debt issuance costs	532,908	39,502
Deferred income taxes	1,320,364	1,215,259
Other	93,180	64,110
Noncurrent liabilities of discontinued operations	4,177	3,989
Total noncurrent liabilities	1,950,629	1,322,860
Shareholders' equity:		
Common stock, \$.10 par value, 160,000,000 shares authorized, 110,846,112 shares and 110,508,605 shares issued as of March 31, 2015 and September 30, 2014, respectively and 107,654,499 shares and 108,232,284 shares outstanding as of March 31, 2015 and	11,085	11,051

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September 30, 2014, respectively

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

Additional paid-in capital	402,442	383,972
Retained earnings	4,729,390	4,525,797
Accumulated other comprehensive income	40,072	83,126
Treasury stock, at cost	(180,613)	(112,969)
Total shareholders' equity	5,002,376	4,890,977
Total liabilities and shareholders' equity	\$ 7,344,150	\$ 6,720,998

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Operating revenues:				
Drilling U.S. Land	\$ 718,463	\$ 741,791	\$ 1,608,510	\$ 1,473,465
Drilling Offshore	62,626	63,276	132,099	122,330
Drilling International Land	98,222	85,533	191,107	180,874
Other	3,741	2,830	7,921	5,913
	883,052	893,430	1,939,637	1,782,582
Operating costs and other:				
Operating costs, excluding depreciation	469,328	480,167	1,023,571	954,215
Depreciation	149,708	123,963	287,321	244,200
General and administrative	34,902	34,431	67,809	66,674
Research and development	4,857	3,625	9,015	7,882
Income from asset sales	(2,915)	(4,098)	(7,070)	(9,762)
	655,880	638,088	1,380,646	1,263,209
Operating income from continuing operations	227,172	255,342	558,991	519,373
Other income (expense):				
Interest and dividend income	2,549	490	2,834	943
Interest expense	(2,471)	(1,725)	(3,032)	(2,919)
Gain from sale of investment securities		21,352		21,352
Other	55	(32)	369	(377)
	133	20,085	171	18,999
Income from continuing operations before income taxes	227,305	275,427	559,162	538,372
Income tax provision	77,769	100,838	206,569	190,601
Income from continuing operations	149,536	174,589	352,593	347,771
Income (loss) from discontinued operations before income taxes				
	(76)	2,786	(91)	2,786
Income tax provision	(77)	2,805	(77)	2,805
Income (loss) from discontinued operations	1	(19)	(14)	(19)
NET INCOME	\$ 149,537	\$ 174,570	\$ 352,579	\$ 347,752
Basic earnings per common share:				
Income from continuing operations	\$ 1.38	\$ 1.61	\$ 3.25	\$ 3.22
Income from discontinued operations				
Net income	\$ 1.38	\$ 1.61	\$ 3.25	\$ 3.22
Diluted earnings per common share:				

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Income from continuing operations	\$	1.37	\$	1.59	\$	3.23	\$	3.17
Income from discontinued operations								
Net income	\$	1.37	\$	1.59	\$	3.23	\$	3.17
Weighted average shares outstanding:								
Basic		107,646		107,692		107,812		107,417
Diluted		108,370		109,081		108,620		108,945
Dividends declared per common share	\$	0.6875	\$	0.6250	\$	1.3750	\$	1.2500

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Net income	\$ 149,537	\$ 174,570	\$ 352,579	\$ 347,752
Other comprehensive income (loss), net of income taxes:				
Unrealized depreciation on securities, net of income taxes of (\$0.8) million and (\$27.4) million at March 31, 2015 and (\$2.3) million and (\$4.3) million at March 31, 2014	(1,203)	(3,552)	(43,447)	(6,513)
Reclassification of realized gains in net income, net of income taxes of (\$8.5) million at March 31, 2014		(12,884)		(12,884)
Minimum pension liability adjustments, net of income taxes of \$0.1 million and \$0.2 million at March 31, 2015 and \$0.1 million and \$0.2 million at March 31, 2014	197	145	393	292
Other comprehensive loss	(1,006)	(16,291)	(43,054)	(19,105)
Comprehensive income	\$ 148,531	\$ 158,279	\$ 309,525	\$ 328,647

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Six Months Ended March 31,	
	2015	2014
OPERATING ACTIVITIES:		
Net income	\$ 352,579	\$ 347,752
Adjustment for loss from discontinued operations	14	19
Income from continuing operations	352,593	347,771
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	287,321	244,200
Amortization of debt discount and debt issuance costs	187	186
Provision for bad debt		(194)
Stock-based compensation	13,079	12,804
Other	32	
Gain on sale of investment securities		(21,352)
Income from asset sales	(7,070)	(9,762)
Deferred income tax expense	134,185	13,751
Change in assets and liabilities:		
Accounts receivable	81,508	(2,494)
Inventories	(18,028)	(10,963)
Prepaid expenses and other	(17,726)	21,629
Accounts payable	1,120	(25,337)
Accrued liabilities	(45,405)	(19,017)
Deferred income taxes	(30)	(1,109)
Other noncurrent liabilities	30,832	(10,083)
Net cash provided by operating activities from continuing operations	812,598	540,030
Net cash used in operating activities from discontinued operations	(14)	(19)
Net cash provided by operating activities	812,584	540,011
INVESTING ACTIVITIES:		
Capital expenditures	(763,365)	(356,753)
Proceeds from sale of investment securities		23,338
Proceeds from asset sales	15,214	13,321
Net cash used in investing activities	(748,151)	(320,094)
FINANCING ACTIVITIES:		
Dividends paid	(149,347)	(121,545)
Repurchase of common stock	(59,654)	
Proceeds from senior notes, net of discount and debt issuance costs	492,791	
Proceeds on short-term debt	1,002	
Payments on short-term debt	(1,002)	
Net increase in bank overdraft	12,560	
Exercise of stock options, net of tax withholding	(1,078)	19,701
Tax withholdings related to net share settlements of restricted stock	(4,248)	(3,049)
Excess tax benefit from stock-based compensation	2,761	22,087
Net cash provided by (used in) financing activities	293,785	(82,806)

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Net increase in cash and cash equivalents		358,218		137,111
Cash and cash equivalents, beginning of period		360,909		447,868
Cash and cash equivalents, end of period	\$	719,127	\$	584,979

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS EQUITY

SIX MONTHS ENDED MARCH 31, 2015

(Unaudited)

(in thousands, except per share amounts)

	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-In	Earnings	Other	Shares	Amount	Shareholders
			Capital		Comprehensive			Equity
					Income			
Balance, September 30, 2014	110,509	\$ 11,051	\$ 383,972	\$ 4,525,797	\$ 83,126	2,276	\$ (112,969)	\$ 4,890,977
Net income				352,579				352,579
Other comprehensive loss					(43,054)			(43,054)
Dividends declared (\$1.375 per share)				(148,986)				(148,986)
Exercise of stock options, net of tax withholding	123	13	2,651			47	(3,742)	(1,078)
Tax benefit of stock-based awards			2,761					2,761
Stock issued for vested restricted stock, net of shares withheld for employee taxes	214	21	(21)			59	(4,248)	(4,248)
Repurchase of common stock						810	(59,654)	(59,654)
Stock-based compensation			13,079					13,079
Balance, March 31, 2015	110,846	\$ 11,085	\$ 402,442	\$ 4,729,390	\$ 40,072	3,192	\$ (180,613)	\$ 5,002,376

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (the Commission) pertaining to interim financial information. Accordingly, these interim financial statements do not include all information or footnote disclosures required by GAAP for complete financial statements and, therefore, should be read in conjunction with the Consolidated Financial Statements and notes thereto in our 2014 Annual Report on Form 10-K and other current filings with the Commission. In the opinion of management all adjustments, consisting of those of a normal recurring nature, necessary to present fairly the results of the periods presented have been included. The results of operations for the interim periods presented may not necessarily be indicative of the results to be expected for the full year.

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

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

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

Amortization of debt discount and debt issuance costs has been reclassified in the accompanying Consolidated Condensed Statements of Cash Flow for the three months ended March 31, 2014 to conform to current year presentation. The amortization was previously included as a change in assets.

As more fully described in our 2014 Annual Report on Form 10-K, our contract drilling revenues are comprised of daywork drilling contracts for which the related revenues and expenses are recognized as services are performed. For contracts that are terminated by customers prior to the expirations of their fixed terms, contractual provisions customarily require early termination amounts to be paid to us. Revenues from early terminated contracts are recognized when all contractual requirements have been met. During the three and six months ended March 31, 2015, early termination revenue was approximately \$71.7 million and \$95.1 million, respectively. We had no early termination revenue for the three months ended March 31, 2014 and had \$9.9 million for the six months ended March 31, 2014.

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Depreciation in the Consolidated Condensed Statements of Income includes abandonments of \$10.2 million and \$12.2 million for the three and six months ended March 31, 2015 compared to \$1.8 million and \$3.7 million for the three and six months ended March 31, 2014. Effective March 31, 2015, we decommissioned all 17 of our SCR powered FlexRigs including 6 idle FlexRig1 rigs and 11 idle FlexRig2 rigs.

2. Discontinued Operations

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

3. Earnings per Share

ASC 260, *Earnings per Share*, requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per share. We have granted and expect to continue to grant to employees restricted stock grants that contain non-forfeitable rights to dividends. Such grants are considered participating securities under ASC 260. As such, we are required to include these grants in the calculation of our basic earnings per share and calculate basic earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings.

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

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
	(in thousands, except per share amounts)			
Numerator:				
Income from continuing operations	\$ 149,536	\$ 174,589	\$ 352,593	\$ 347,771
Loss from discontinued operations	1	(19)	(14)	(19)
Net income	149,537	174,570	352,579	347,752
Adjustment for basic earnings per share:				
Earnings allocated to unvested shareholders	(948)	(1,035)	(2,212)	(2,027)
Numerator for basic earnings per share:				
From continuing operations	148,588	173,554	350,381	345,744
From discontinued operations	1	(19)	(14)	(19)
	148,589	173,535	350,367	345,725
Adjustment for diluted earnings per share:				
Effect of reallocating undistributed earnings of unvested shareholders	3			