



Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

(Exact name of registrant as specified in its charter)

Delaware	73-0679879
(State or other jurisdiction of incorporation or organization)	(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

Non-accelerated filer  
(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

CLASS	OUTSTANDING AT July 31, 2017
Common Stock, \$0.10 par value	108,581,547

Table of Contents

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page No.
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Consolidated Condensed Balance Sheets as of June 30, 2017 and September 30, 2016</u>	3
<u>Consolidated Condensed Statements of Operations for the Three and Nine Months Ended June 30, 2017 and 2016</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended June 30, 2017 and 2016</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended June 30, 2017 and 2016</u>	6
<u>Consolidated Condensed Statement of Shareholders' Equity for the Nine Months Ended June 30, 2017</u>	7
<u>Notes to Consolidated Condensed Financial Statements</u>	8-36
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	37-47
<b><u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u></b>	47-48
<b><u>Item 4. Controls and Procedures</u></b>	48
<b><u>PART II. OTHER INFORMATION</u></b>	48
<b><u>Item 1. Legal Proceedings</u></b>	48
<b><u>Item 1A. Risk Factors</u></b>	48-50
<b><u>Item 6. Exhibits</u></b>	51
<b><u>Signatures</u></b>	52



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, 2017	September 30, 2016
Assets		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 572,787	\$ 905,561
Short-term investments	39,894	44,148
Accounts receivable, less reserve of \$6,352 in June 30, 2017 and \$2,696 in September 30, 2016	440,872	375,169
Inventories	138,403	124,325
Prepaid expenses and other	58,425	78,067
Assets held for sale	—	45,352
Current assets of discontinued operations	7	64
Total current assets	1,250,388	1,572,686
<b>NONCURRENT ASSETS:</b>		
Investments	76,986	84,955
Property, plant and equipment, at cost:	5,062,914	5,144,733
Goodwill	51,967	4,718
Intangible assets, net of amortization	51,569	919
Other assets	20,067	24,008
Total noncurrent assets	5,263,503	5,259,333
<b>TOTAL ASSETS</b>	<b>\$ 6,513,891</b>	<b>\$ 6,832,019</b>
Liabilities and Shareholders' Equity		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 137,206	\$ 95,422
Accrued liabilities	196,643	234,639
Current liabilities of discontinued operations	80	59
Total current liabilities	333,929	330,120
<b>NONCURRENT LIABILITIES:</b>		
Long-term debt less unamortized discount and debt issuance costs	492,637	491,847
Deferred income taxes	1,325,250	1,342,456

Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

Other	108,946	102,781
Noncurrent liabilities of discontinued operations	3,225	3,890
Total noncurrent liabilities	1,930,058	1,940,974
SHAREHOLDERS' EQUITY:		
Common stock, \$.10 par value, 160,000,000 shares authorized, 111,897,106 shares and 111,400,339 shares issued as of June 30, 2017 and September 30, 2016 respectively and 108,581,547 shares and 108,077,916 shares outstanding as of June 30, 2017 and September 30, 2016 respectively	11,190	11,140
Preferred stock, no par value, 1,000,000 shares authorized, no shares issued	—	—
Additional paid-in capital	478,231	448,452
Retained earnings	3,954,705	4,289,807
Accumulated other comprehensive income (loss)	(4,101)	(204)
	4,440,025	4,749,195
Treasury stock, at cost	(190,121)	(188,270)
Total shareholders' equity	4,249,904	4,560,925
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,513,891	\$ 6,832,019

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		Nine Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Operating revenues				
Drilling - U.S. Land	\$ 405,516	\$ 285,028	\$ 1,000,119	\$ 1,004,116
Drilling - Offshore	33,711	30,492	103,758	106,697
Drilling - International Land	55,075	47,983	157,863	171,529
Other	4,262	2,983	10,697	10,182
	498,564	366,486	1,272,437	1,292,524
Operating costs and expenses				
Operating costs, excluding depreciation	337,463	186,146	881,971	684,401
Depreciation	145,043	138,690	431,667	422,336
Asset impairment charge	—	6,250	—	6,250
Research and development	3,058	2,707	8,585	7,941
General and administrative	42,890	46,496	110,671	112,381
Income from asset sales	(1,862)	(547)	(17,593)	(7,820)
	526,592	379,742	1,415,301	1,225,489
Operating income (loss) from continuing operations	(28,028)	(13,256)	(142,864)	67,035
Other income (expense)				
Interest and dividend income	1,700	778	4,028	2,310
Interest expense	(6,364)	(6,407)	(17,503)	(16,652)
Other	(911)	534	(350)	926
	(5,575)	(5,095)	(13,825)	(13,416)
Income (loss) from continuing operations before income taxes	(33,603)	(18,351)	(156,689)	53,619
Income tax provision	(10,478)	2,842	(50,537)	33,740
Income (loss) from continuing operations	(23,125)	(21,193)	(106,152)	19,879
Income (loss) from discontinued operations before income taxes	3,223	2,193	2,705	2,241
Income tax provision	1,897	2,200	2,233	6,113
Income (loss) from discontinued operations	1,326	(7)	472	(3,872)
NET INCOME (LOSS)	\$ (21,799)	\$ (21,200)	\$ (105,680)	\$ 16,007
Basic earnings per common share:				
Income (loss) from continuing operations	\$ (0.22)	\$ (0.20)	\$ (0.99)	\$ 0.18
Income (loss) from discontinued operations	\$ 0.01	\$ —	\$ —	\$ (0.04)
Net income (loss)	\$ (0.21)	\$ (0.20)	\$ (0.99)	\$ 0.14



Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

Diluted earnings per common share:				
Income (loss) from continuing operations	\$ (0.22)	\$ (0.20)	\$ (0.99)	\$ 0.17
Income (loss) from discontinued operations	\$ 0.01	\$ —	\$ —	\$ (0.04)
Net income (loss)	\$ (0.21)	\$ (0.20)	\$ (0.99)	\$ 0.13
Weighted average shares outstanding (in thousands):				
Basic	108,572	108,047	108,470	107,970
Diluted	108,572	108,047	108,470	108,523
Dividends declared per common share	\$ 0.7000	\$ 0.7000	\$ 2.1000	\$ 2.0750

The accompanying notes are an integral part of these statements.

4

---

Table of Contents

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

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Net income (loss)	\$ (21,799)	\$ (21,200)	\$ (105,680)	\$ 16,007
Other comprehensive income (loss), net of income taxes:				
Unrealized appreciation (depreciation) on securities, net of income taxes of (\$4.4) million and (\$3.2) million at June 30, 2017, and \$6.1 million and (\$1.7) million at June 30, 2016	(6,899)	9,744	(4,994)	(2,719)
Minimum pension liability adjustments, net of income taxes of \$0.2 million and \$0.6 million at June 30, 2017, and \$0.1 million and \$0.5 million at June 30, 2016	365	314	1,097	940
Other comprehensive income (loss)	(6,534)	10,058	(3,897)	(1,779)
Comprehensive income (loss)	\$ (28,333)	\$ (11,142)	\$ (109,577)	\$ 14,228

The accompanying notes are an integral part of these statements.

Table of Contents

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

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine Months Ended June 30,	
	2017	2016
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (105,680)	\$ 16,007
Adjustment for (income) loss from discontinued operations	(472)	3,872
Income (loss) from continuing operations	(106,152)	19,879
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	431,667	422,336
Asset impairment charge	—	6,250
Amortization of debt discount and debt issuance costs	789	879
Provision (recovery) for bad debt	3,858	(3,067)
Stock-based compensation	19,247	19,661
Pension settlement charge	1,411	3,343
Income from asset sales	(17,593)	(7,820)
Deferred income tax expense	(27,798)	77,886
Other	62	255
Change in assets and liabilities:		
Accounts receivable	(62,942)	97,698
Inventories	(11,806)	(344)
Prepaid expenses and other	26,820	(6,537)
Accounts payable	41,398	(13,643)
Accrued liabilities	(53,456)	14,632
Deferred income taxes	(1,051)	2,673
Other noncurrent liabilities	(8,205)	(18,741)
Net cash provided by operating activities from continuing operations	236,249	615,340
Net cash provided by (used in) operating activities from discontinued operations	(115)	70
Net cash provided by operating activities	236,134	615,410
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(300,275)	(219,549)
Purchase of short-term investments	(48,958)	(36,958)
Payment for acquisition of business, net of cash acquired	(70,416)	—
Proceeds from sale of short-term investments	53,150	32,681
Proceeds from asset sales	17,921	12,804
Net cash used in investing activities	(348,578)	(211,022)
<b>FINANCING ACTIVITIES:</b>		

Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

Debt issuance costs	—	(32)
Dividends paid	(229,061)	(224,040)
Exercise of stock options, net of tax withholding	10,458	483
Tax withholdings related to net share settlements of restricted stock	(5,848)	(3,912)
Excess tax benefit from stock-based compensation	4,121	761
Net cash used in financing activities	(220,330)	(226,740)
Net increase (decrease) in cash and cash equivalents	(332,774)	177,648
Cash and cash equivalents, beginning of period	905,561	729,384
Cash and cash equivalents, end of period	\$ 572,787	\$ 907,032

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, 2017

(Unaudited)

(in thousands, except per share amounts)

	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-In Capital	Earnings	Other Comprehensive Loss	Shares	Amount	
Balance, September 30, 2016	111,400	\$ 11,140	\$ 448,452	\$ 4,289,807	\$ (204)	3,322	\$ (188,270)	\$ 4,560,925
Comprehensive loss:								
Net loss				(105,680)				(105,680)
Other comprehensive loss					(3,897)			(3,897)
Dividends declared (\$2.10 per share)				(229,422)				(229,422)
Exercise of stock options	355	36	13,950			51	(3,528)	10,458
Tax benefit of stock-based awards			4,121					4,121
Stock issued for vested restricted stock, net of shares withheld for employee taxes	142	14	(7,539)			(57)	1,677	(5,848)
Stock-based compensation			19,247					19,247
Balance, June 30, 2017	111,897	\$ 11,190	\$ 478,231	\$ 3,954,705	\$ (4,101)	3,316	\$ (190,121)	\$ 4,249,904

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 2016 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 January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04, Intangibles-Goodwill and Other (Topic 350). The objective of this ASU is to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Instead, under this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The ASU is applicable for public entities for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The amendments should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We early adopted this guidance effective June 30, 2017 with no impact on our consolidated financial statements. Goodwill will be evaluated for impairment each year in our fourth fiscal quarter.

As more fully described in our 2016 Annual Report on Form 10-K, our contract drilling revenues are comprised of daywork drilling contracts for which the related revenues and expenses are recognized as services are performed. For

contracts that are terminated by customers prior to the expirations of their fixed terms, contractual provisions customarily require early termination amounts to be paid to us. Revenues from early terminated contracts are recognized when all contractual requirements have been met. During the three and nine months ended June 30, 2017, early termination revenue was approximately \$5.1 million and \$24.8 million, respectively. We had \$80.7 million and \$189.2 million of early termination revenue for the three and nine months ended June 30, 2016.

Depreciation in the Consolidated Condensed Statements of Operations includes abandonments of \$7.7 million and \$27.2 million for the three and nine months ended June 30, 2017 and \$0.9 million for the nine months ended June 30, 2016. During fiscal 2017, upgrades to our rig fleet to meet customer demands for additional capabilities resulted in the abandonment of older rig components.

During the second quarter of fiscal 2017, we determined rig equipment in our U.S. Land segment previously classified as held for sale no longer met the criteria for held for sale and was reclassified to property, plant and equipment. The equipment is from rigs that were decommissioned from service in prior fiscal years and is recorded at its carrying value which is lower than its estimated fair value.

## Table of Contents

During the third quarter of fiscal 2017, we determined rig equipment in our International Land segment previously classified as held for sale no longer met the criteria for held for sale and was reclassified to property, plant and equipment. The equipment is recorded at its carrying value which is lower than its estimated fair value.

During the second quarter of fiscal 2017, we sold one of our offshore rigs. The gain from the sale is included in Income from asset sales in our Consolidated Condensed Statements of Operations.

The functional currency for all our foreign operations is the U.S. dollar. Nonmonetary assets and liabilities are translated at historical rates and monetary assets and liabilities are translated at exchange rates in effect at the end of the period. Income statement accounts are translated at average rates for the period presented. Foreign currency gains and losses from remeasurement of foreign currency financial statements and foreign currency translations into U.S. dollars are included in direct operating costs. Included in direct operating costs are aggregate foreign currency losses of \$1.3 million and \$3.3 million for the three and nine months ended June 30, 2017, respectively. For the three and nine months ended June 30, 2016, we had aggregate foreign currency losses of \$1.1 million and \$9.4 million, respectively, primarily due to the sharp devaluation of the Argentine peso in December 2015.

## 2. Business Combinations

On June 2, 2017, we completed a merger transaction (“MOTIVE Merger”) pursuant to which an unaffiliated drilling technology company, MOTIVE Drilling Technologies, Inc., a Delaware corporation (“MOTIVE”), was merged with and into our wholly owned subsidiary Spring Merger Sub, Inc., a Delaware corporation. MOTIVE survived the transaction and is now a wholly owned subsidiary of the Company. At the effective time of the MOTIVE Merger, MOTIVE shareholders received aggregate cash consideration of \$74.3 million, net of customary closing adjustments, and may receive up to an additional \$25.0 million in potential earnout payments based on future performance. Transaction costs related to the MOTIVE Merger incurred during the nine months ended June 30, 2017, were \$2.8 million and are recorded in the Consolidated Statement of Operations within the general and administrative expense line item. We recorded revenue of \$1.1 million and a net loss of \$0.7 million related to the MOTIVE Merger during the three and nine months ended June 30, 2017.

MOTIVE has a proprietary Bit Guidance System that is an algorithm-driven system that considers the total economic consequences of directional drilling decisions and has proven to consistently lower drilling costs through more efficient drilling and increase hydrocarbon production through smoother wellbores and more accurate well placement. Given our strong and longstanding technology and innovation focus, we believe the technology will continue to advance and provide further benefits for the industry.



The MOTIVE Merger is accounted for as a business combination in accordance with Accounting Standards Codification (“ASC”) 805, Business Combinations, which requires the assets acquired and liabilities assumed to be recorded at their acquisition date fair values. The estimated fair values are based upon preliminary calculations and valuations, and those estimates and assumptions are subject to changes as we obtain additional information for those estimates during the measurement period. The following table summarizes the purchase price and the preliminary allocation of the fair values of assets acquired and liabilities assumed and separately identifiable intangible assets at the acquisition date (in thousands):

9

---

Table of Contents

Purchase Price	
Consideration given	
Cash consideration	\$ 74,275
Long-term contingent earnout liability (Other noncurrent liabilities)	14,509
Total consideration given	\$ 88,784
Allocation of Purchase Price	
Fair value of assets acquired	
Current assets	\$ 4,425
Property, plant and equipment	300
Intangible asset - developed technology (Intangible assets, net of amortization)	51,000
Goodwill	47,249
Total assets acquired	\$ 102,974
Fair value of liabilities assumed	
Current liabilities	\$ 25
Deferred income taxes	14,165
Total liabilities acquired	\$ 14,190
Fair value of total assets and liabilities acquired	\$ 88,784

The fair value of the contingent consideration of \$14.5 million, calculated using a Monte Carlo simulation which evaluates numerous potential earnings and pay out scenarios, is considered a level 3 measurement under the fair value hierarchy. The developed technology is an intangible asset that will be amortized on a straight-line basis over an estimated 15-year life. We expect annual amortization to be approximately \$3.4 million. The goodwill consists largely of the synergies and economies of scale expected from the drilling technology providing more efficient drilling and directional drilling services, the first mover advantage obtained through the acquisition and expected future developments resulting from the assembled workforce. The goodwill is reported in the Other segment and will not be allocated to any other reporting unit. The goodwill is not subject to amortization but will be evaluated at least annually for impairment or more frequently if impairment indicators are present. The developed technology and goodwill are not deductible for income tax purposes. An associated deferred tax liability has been recorded in regards to the developed technology.

The following unaudited pro forma combined financial information is provided for the nine months ended June 30, 2017 and 2016, as though the MOTIVE Merger had been completed as of October 1, 2015. These pro forma combined results of operations have been prepared by adjusting our historical results to include the historical results of MOTIVE and reflect pro forma adjustments based on available information and certain assumptions that we believe are reasonable, including application of an appropriate income tax to MOTIVE pre-tax loss. Additionally, pro forma

earnings for the nine months ended June 30, 2017 were adjusted to exclude \$1.0 million of after-tax transaction costs. The unaudited pro forma combined financial information is provided for illustrative purposes only and is not necessarily indicative of the actual results that would have been achieved by the combined company for

Table of Contents

the periods presented or that may be achieved by the combined company in the future. Future results may vary significantly from the results reflected in this pro forma financial information.

	Pro Forma Nine Months Ended June 30, 2017                      2016 (unaudited) (in thousands)	
Revenues	\$ 1,275,646	\$ 1,294,146
Net loss	\$ (105,482)	\$ (18,292)

3. 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.

4. 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.

Under the two-class method of calculating earnings per share, dividends paid and a portion of undistributed net income, but not losses, are allocated to unvested restricted stock grants that receive dividends, which are considered participating securities.

Table of Contents

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands, except per share amounts)			
Numerator:				
Income (loss) from continuing operations	\$ (23,125)	\$ (21,193)	\$ (106,152)	\$ 19,879
Income (loss) from discontinued operations	1,326	(7)	472	(3,872)
Net income (loss)	(21,799)	(21,200)	(105,680)	16,007
Adjustment for basic earnings per share				
Earnings allocated to unvested shareholders	(458)	(451)	(1,349)	(1,410)
Numerator for basic earnings per share:				
From continuing operations	(23,583)	(21,644)	(107,501)	18,469
From discontinued operations	1,326	(7)	472	(3,872)
	(22,257)	(21,651)	(107,029)	14,597
Adjustment for diluted earnings per share:				
Effect of reallocating undistributed earnings of unvested shareholders	—	—	—	—
Numerator for diluted earnings per share:				
From continuing operations	(23,583)	(21,644)	(107,501)	18,469
From discontinued operations	1,326	(7)	472	(3,872)
	\$ (22,257)	\$ (21,651)	\$ (107,029)	\$ 14,597
Denominator:				
Denominator for basic earnings per share - weighted-average shares	108,572	108,047	108,470	107,970
Effect of dilutive shares from stock options and restricted stock	—	—	—	553
Denominator for diluted earnings per share - adjusted weighted-average shares	108,572	108,047	108,470	108,523
Basic earnings per common share:				
Income (loss) from continuing operations	\$ (0.22)	\$ (0.20)	\$ (0.99)	\$ 0.18
Income (loss) from discontinued operations	0.01	—	—	(0.04)
Net income (loss)	\$ (0.21)	\$ (0.20)	\$ (0.99)	\$ 0.14
Diluted earnings per common share:				
Income (loss) from continuing operations	\$ (0.22)	\$ (0.20)	\$ (0.99)	\$ 0.17
Income (loss) from discontinued operations	0.01	—	—	(0.04)
Net income (loss)	\$ (0.21)	\$ (0.20)	\$ (0.99)	\$ 0.13

We had a net loss for the three and nine months ended June 30, 2017. Accordingly, our diluted earnings per share calculation for the three and nine months ended June 30, 2017 was equivalent to our basic earnings per share calculation since diluted earnings per share excluded any assumed exercise of equity awards. These were excluded because they were deemed to be anti-dilutive, meaning their inclusion would have reduced the reported net loss per share in the applicable period.



Table of Contents

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

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
	2017	2016	2017	2016
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
Shares excluded from calculation of diluted earnings per share	1,332	3,409	1,034	1,861
Weighted-average price per share	\$ 70.82	\$ 51.94	\$ 73.84	\$ 63.70

## 5. Financial Instruments and Fair Value Measurement

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

	Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity Securities:				
June 30, 2017	\$ 38,473	\$ 27,067	\$ (2,160)	\$ 63,380
September 30, 2016	\$ 38,473	\$ 33,051	\$ —	\$ 71,524

On an ongoing basis we evaluate the marketable equity securities to determine if any decline in fair value below cost is other-than-temporary. If a decline in fair value below cost is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis established. We review several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, (i) the length of time a security is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near-term prospects of the issuer and (iv) our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of securities used in determining realized gains and losses is based on the average cost basis of the security sold. One of our securities, Atwood Oceanics, Inc. (“Atwood”), was in an unrealized loss position for less than 30 days at June 30, 2017. During the quarter, Ensco plc (“Ensco”) announced that it entered into a definitive merger agreement under which Ensco will acquire Atwood in an all-stock transaction. The definitive merger agreement was unanimously approved by each company’s Board of Directors. Under the terms of the merger



agreement, Atwood shareholders will receive 1.60 shares of Ensco for each share of Atwood common stock for a total value of \$10.72 per Atwood share based on Ensco's closing share price of \$6.70 on May 26, 2017. The merger is subject to shareholder approval from both companies (simple majority approval from Ensco shareholders and two-thirds majority approval from Atwood shareholders). The votes for each respective company are currently pending and do not have an announced date. The transaction is reportedly expected to close as early as the third quarter of calendar year 2017. Considering the factors above, including whether and when the security will recover in value and based on our ability and intent to hold these investments until the fair value recovers, impairment was not considered other-than-temporary at June 30, 2017.

The assets held in the Non-qualified Supplemental Savings Plan are carried at fair value which totaled \$13.6 million at June 30, 2017 and \$13.4 million at September 30, 2016. The assets are comprised of mutual funds that are measured using Level 1 inputs.

Short-term investments include securities classified as trading securities. Both realized and unrealized gains and losses on trading securities are included in other income (expense) in the Consolidated Condensed Statements of Operations. The securities are recorded at fair value.

Table of Contents

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

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

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

At June 30, 2017, our financial instruments utilizing Level 1 inputs include cash equivalents, equity securities with active markets, money market funds we have elected to classify as restricted assets that are included in other current assets and other assets. Also included is cash denominated in a foreign currency that we have elected to classify as restricted to be used to settle the remaining liabilities of discontinued operations. For these items, quoted current market prices are readily available.

At June 30, 2017, Level 2 inputs include U.S. Agency issued debt securities, municipal bonds and corporate bonds measured using broker quotations that utilize observable market inputs. Also included in level 2 inputs are bank certificate of deposits included in short-term investments or current assets.

Our financial instruments measured using Level 3 inputs consist of potential earnout payments associated with the MOTIVE acquisition during the third quarter of fiscal 2017. The valuation techniques used for determining the fair value of the potential earnout payments are described further in Note 2.

The following table summarizes our assets and liabilities measured at fair value presented in our Consolidated Condensed Balance Sheet as of June 30, 2017:

	Fair Value (in thousands)	(Level 1)	(Level 2)	(Level 3)
Recurring fair value measurements:				
Short-term investments:				
Certificate of deposit	\$ 4,600	\$ —	\$ 4,600	\$ —
Corporate and municipal debt securities	13,877	—	13,877	—
U.S. government and federal agency securities	21,417	17,419	3,998	—
Total short-term investments	39,894	17,419	22,475	—
Cash and cash equivalents	572,787	572,787	—	—
Investments	63,380	63,380	—	—
Other current assets	32,917	32,667	250	—
Other assets	6,690	6,690	—	—
Total assets measured at fair value	\$ 715,668	\$ 692,943	\$ 22,725	\$ —
Liabilities				
Contingent earnout liability	\$ 14,509	\$ —	\$ —	\$ 14,509

Table of Contents

The following information presents the supplemental fair value information about long-term fixed-rate debt at June 30, 2017 and September 30, 2016:

	June 30, 2017	September 30, 2016
	(in millions)	
Carrying value of long-term fixed-rate debt	\$ 492.6	\$ 491.8
Fair value of long-term fixed-rate debt	\$ 527.2	\$ 529.6

The fair value for the \$500 million fixed-rate debt was based on broker quotes at June 30, 2017. The notes are classified within Level 2 as they are not actively traded in markets.

## 6.Shareholders' Equity

The Company has authorization from the Board of Directors for the repurchase of up to four million shares per calendar year. The repurchases may be made using our cash and cash equivalents or other available sources. We had no purchases of common shares in either of the third quarters of fiscal 2017 or fiscal 2016.

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

	June 30, 2017	September 30, 2016
	(in thousands)	
Pre-tax amounts:		
Unrealized appreciation on securities	\$ 24,907	\$ 33,051
Unrealized actuarial loss	(32,387)	(34,112)
	\$ (7,480)	\$ (1,061)
After-tax amounts:		
Unrealized appreciation on securities	\$ 15,905	\$ 20,899
Unrealized actuarial loss	(20,006)	(21,103)
	\$ (4,101)	\$ (204)

Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

The following is a summary of the changes in accumulated other comprehensive income, net of tax, by component for the three and nine months ended June 30, 2017:

	Three Months Ended June 30, 2017		
	Unrealized Appreciation (Depreciation) Defined Available-for-sale Securities	Pension Plan Benefit	Total
	(in thousands)		
Balance at April 1, 2017	\$ 22,804	\$ (20,371)	\$ 2,433
Other comprehensive loss before reclassifications	(6,899)	—	(6,899)
Amounts reclassified from accumulated other comprehensive income	—	365	365
Net current-period other comprehensive income (loss)	(6,899)	365	(6,534)
Balance June 30, 2017	\$ 15,905	\$ (20,006)	\$ (4,101)

Table of Contents

	Nine Months Ended June 30, 2017		
	Unrealized Appreciation (Depreciation) Defined Available-for-sale Securities	Pension Plan Benefit	Total
Balance at October 1, 2016	\$ 20,899	\$ (21,103)	\$ (204)
Other comprehensive loss before reclassifications	(4,994)	—	(4,994)
Amounts reclassified from accumulated other comprehensive income	—	1,097	1,097
Net current-period other comprehensive income (loss)	(4,994)	1,097	(3,897)
Balance June 30, 2017	\$ 15,905	\$ (20,006)	\$ (4,101)

The following provides detail about accumulated other comprehensive income components which were reclassified to the Condensed Consolidated Statements of Operations:

Details About Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended June 30,		Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Nine Months Ended June 30,		Affected Line Item in the Consolidated Statement of Operations
	2017	2016	2017	2016	
	(in thousands)		(in thousands)		
Defined Benefit Pension Items					
Amortization of net actuarial loss	\$ 574	\$ 493	\$ 1,724	\$ 1,479	General and administrative
	(209)	(179)	(627)	(539)	Income tax provision
Total reclassifications for the period	\$ 365	\$ 314	\$ 1,097	\$ 940	Net of tax

## 7.Cash Dividends

The \$0.70 per share cash dividend declared March 1, 2017, was paid June 1, 2017. On June 7, 2017, a cash dividend of \$0.70 per share was declared for shareholders of record on August 18, 2017, payable September 1, 2017. The dividend payable is included in accounts payable in the Consolidated Condensed Balance Sheets.

#### 8. Stock-Based Compensation

On March 2, 2016, the Helmerich & Payne, Inc. 2016 Omnibus Incentive Plan (the "2016 Plan") was approved by our stockholders. The 2016 Plan, among other things, authorizes the Human Resources Committee of the Board to grant non-qualified stock options and restricted stock awards to selected employees and to non-employee Directors. Restricted stock may be granted for no consideration other than prior and future services. The purchase price per share for stock options may not be less than market price of the underlying stock on the date of grant. Stock options expire 10 years after the grant date. Awards outstanding in the Helmerich & Payne, Inc. 2005 Long-Term Incentive Plan (the "2005 Plan") and the Helmerich & Payne, Inc. 2010 Long-Term Incentive Plan (the "2010 Plan") remain subject to the terms and conditions of those plans. As of June 30, 2017, there were 396,007 non-qualified stock options and 292,112 shares of restricted stock awards granted under the 2016 Plan.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Compensation expense				
Stock options	\$ 1,934	\$ 1,722	\$ 5,455	\$ 7,048
Restricted stock	4,834	3,952	13,792	12,613
	\$ 6,768	\$ 5,674	\$ 19,247	\$ 19,661

## 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, 2017 and 2016:

	2017		2016	
Risk-free interest rate	2.0	%	1.8	%
Expected stock volatility	38.9	%	37.6	%
Dividend yield	3.7	%	4.6	%
Expected term (in years)	5.5		5.5	

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

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

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

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



exercises.

A summary of stock option activity under all existing long-term incentive plans for the three and nine months ended June 30, 2017 is presented in the following tables:

	Three Months Ended June 30, 2017			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at April 1, 2017	3,293	\$ 55.90	—	—
Granted	62	53.11	—	—
Exercised	(15)	35.11	—	—
Forfeited/Expired	—	—	—	\$ —
Outstanding at June 30, 2017	3,340	\$ 55.93	5.8	\$ 19.7
Vested and expected to vest at June 30, 2017	3,286	\$ 55.71	5.7	\$ 19.7
Exercisable at June 30, 2017	2,229	\$ 50.31	4.4	\$ 19.6

Table of Contents

	Nine Months Ended June 30, 2017	
	Shares (in thousands)	Weighted Average Exercise Price
Outstanding at October 1, 2016	3,312	\$ 51.74
Granted	396	76.61
Exercised	(355)	39.38
Forfeited/Expired	(13)	70.37
Outstanding at June 30, 2017	3,340	\$ 55.93

The weighted-average fair value of options granted in the first, second and third quarters of fiscal 2017 was \$22.42, \$17.55 and \$10.81, respectively.

The total intrinsic value of options exercised during the three and nine months ended June 30, 2017 was \$0.3 million and \$12.0 million, respectively.

As of June 30, 2017, the unrecognized compensation cost related to stock options was \$8.6 million which is expected to be recognized over a weighted-average period of 2.4 years.

**RESTRICTED STOCK**

Restricted stock awards consist of our common stock and are time-vested over three to six years. We recognize compensation expense on a straight-line basis over the vesting period. The fair value of restricted stock awards under the 2016 Plan is determined based on the closing price of our shares on the grant date. As of June 30, 2017, there was \$26.3 million of total unrecognized compensation cost related to unvested restricted stock awards which is expected to be recognized over a weighted-average period of 2.5 years.

A summary of the status of our restricted stock awards as of June 30, 2017 and changes in restricted stock outstanding during the nine months then ended is presented below:

	Nine Months Ended June 30, 2017	
	Shares (in thousands)	Weighted Average Exercise Price
Unvested at October 1,	648	\$ 64.24
Granted	292	78.69
Vested (1)	(271)	63.81
Forfeited	(9)	67.79
Unvested on June 30, 2017	660	\$ 70.76

---

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

Table of Contents

## 9. Debt

At June 30, 2017 and September 30, 2016, we had the following unsecured long-term debt outstanding:

	Principal		Unamortized Discount and Debt Issuance Costs	
	June 30, 2017 (in thousands)	September 30, 2016	June 30, 2017	September 30, 2016
Unsecured senior notes issued March 19, 2015:				
Due March 19, 2025	\$ 500,000	\$ 500,000	\$ (7,363)	\$ (8,153)
	500,000	500,000	(7,363)	(8,153)
Less long-term debt due within one year	—	—	—	—
Long-term debt	\$ 500,000	\$ 500,000	\$ (7,363)	\$ (8,153)

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

We have a \$300 million unsecured revolving credit facility which will mature on July 13, 2021. The credit facility has \$75 million available to use as letters of credit. The majority of any borrowings under the facility would accrue interest at a spread over the London Interbank Offered Rate (LIBOR). We also pay a commitment fee based on the unused balance of the facility. Borrowing spreads as well as commitment fees are determined according to a scale based on a ratio of our total debt to total capitalization. The spread over LIBOR ranges from 1.125 percent to 1.75 percent per annum and commitment fees range from .15 percent to .30 percent per annum. Based on our debt to total capitalization on June 30, 2017, the spread over LIBOR and commitment fees would be 1.125 percent and .15 percent, respectively. There is one financial covenant in the facility which requires us to maintain a funded leverage ratio (as defined) of less than 50 percent. The credit facility contains additional terms, conditions, restrictions and covenants that we believe are usual and customary in unsecured debt arrangements for companies of similar size and credit quality including a limitation that priority debt (as defined in the agreement) may not exceed 17.5% of the net worth of the Company. As of June 30, 2017, there were no borrowings, but there were three letters of credit outstanding in the amount of \$38.8 million. At June 30, 2017, we had \$261.2 million available to borrow under our \$300 million unsecured credit facility.

The applicable agreements for all unsecured debt contain 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, 2017, we were in compliance with all debt covenants.

## 10. Income Taxes

Our effective tax rate for the first nine months of fiscal 2017 and 2016 was 32.3 percent and 62.9 percent, respectively. Our effective tax rate for the third quarter ending June 30, 2017 and 2016 was 31.2 percent and -15.5 percent, respectively. Effective tax rates differ from the U.S. federal statutory rate of 35.0 percent primarily due to state and foreign income taxes and the tax benefit from the Internal Revenue Code Section 199 deduction for domestic production activities. The effective tax rate for the nine months ended June 30, 2016 was also impacted by a December 2015 tax law change which resulted in a reduction of the fiscal 2015 Internal Revenue Code Section 199 deduction for domestic production activities.

For the next 12 months, we cannot predict with certainty whether we will achieve ultimate resolution of any uncertain tax positions associated with our U.S. and international operations that could result in increases or decreases of our unrecognized tax benefits. However, we do not expect the increases or decreases to have a material effect on results of operations or financial position.

Table of Contents

11. Commitments and Contingencies

Equipment, parts and supplies are ordered in advance to promote efficient construction and capital improvement progress. At June 30, 2017, we had purchase commitments for equipment, parts and supplies of approximately \$59.7 million.

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

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

The Company and its subsidiaries are parties to various other pending legal actions arising in the ordinary course of our business. We maintain insurance against certain business risks subject to certain deductibles. Although no assurance can be given, we believe, based on our experiences to date and taking into account established reserves and insurance, that the ultimate resolution of such items will not have a material adverse impact on our financial condition, cash flows, or results of operations. When we determine a loss is probable of occurring and is reasonably estimable, we accrue an undiscounted liability for such contingencies based on our best estimate using information available at that time. If the estimated loss is a range of potential outcomes and there is no better estimate within the range, we accrue the amount at the low end of the range. We disclose contingencies where an adverse outcome may be material, or in the judgment of management, we conclude the matter should otherwise be disclosed.

On November 8, 2013, the United States District Court for the Eastern District of Louisiana approved the previously disclosed October 30, 2013 plea agreement between our wholly owned subsidiary, HPIDC, and the United States Department of Justice, United States Attorney’s Office for the Eastern District of Louisiana (“DOJ”). The court’s approval of the plea agreement resolved the DOJ’s investigation into certain choke manifold testing irregularities that occurred in 2010 at one of HPIDC’s offshore platform rigs in the Gulf of Mexico. We also engaged in discussions with the Inspector General’s office of the Department of Interior (“DOI”) regarding the same events that were the subject of the DOJ’s investigation. Although we do not presently anticipate any further action by the DOI in this matter, we can

provide no assurance as to the timing or eventual outcome of the DOI's consideration of the matter.

On or about April 28, 2015, Joshua Keel ("Keel"), an employee of HPIDC, filed a petition in the 152nd Judicial Court for Harris County, Texas (Cause No. 2015-24531) against us, our customer and several subcontractors of our customer. The suit arose from injuries Keel sustained in an accident that occurred while he was working on HPIDC Rig 223 in New Mexico in July of 2014. Keel alleged that the defendants were negligent and negligent per se, acted recklessly, intentionally, and/or with an utterly wanton disregard for the rights and safety of the plaintiff and sought damages well in excess of \$100 million. Pursuant to the terms of the drilling contract between HPIDC and its customer, HPIDC indemnified most of the co-defendants in the lawsuit. On September 14, 2016, the parties in the Keel litigation entered into a global settlement agreement, which was approved by the court on October 14, 2016. The total settlement amount of \$72 million, accrued at September 30, 2016, was paid by the Company and its insurers on behalf of all defendants, in December 2016, pursuant to industry standard contractual indemnification obligations.

Table of Contents

12. Segment Information

We operate principally in the contract drilling industry. The contract drilling operations consist mainly of contracting Company-owned drilling equipment primarily to large oil and gas exploration companies. Our contract drilling business includes the following reportable operating segments: U.S. Land, Offshore and International Land. Each reportable operating segment is a strategic business unit that is managed separately. Our primary international areas of operation include Colombia, Ecuador, Argentina, Bahrain, U.A.E. and other South American and Middle Eastern countries. Other includes additional non-reportable operating segments. Revenues included in Other consist primarily of rental income. Consolidated revenues and expenses reflect the elimination of all material intercompany transactions.

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

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

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

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

Segment operating income for all segments is a non-GAAP financial measure of our performance, as it excludes certain general and administrative expenses, corporate depreciation, income from asset sales and other corporate income and expense. We consider segment operating income to be an important supplemental measure of operating performance by presenting trends in our core businesses. We use this measure to facilitate period-to-period comparisons in operating performance of our reportable segments in the aggregate by eliminating items that affect comparability between periods. We believe that segment operating income is useful to investors because it provides a means to 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.





Table of Contents

Summarized financial information of our reportable segments for the nine months ended June 30, 2017 and 2016 is shown in the following tables:

(in thousands)	External Sales	Inter- Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2017				
Contract Drilling				
U.S. Land	\$ 1,000,119	\$ —	\$ 1,000,119	\$ (90,718)
Offshore	103,758	—	103,758	19,152
International Land	157,863	—	157,863	(5,225)
	1,261,740	—	1,261,740	(76,791)
Other	10,697	638	11,335	(5,752)
	1,272,437	638	1,273,075	(82,543)
Eliminations	—	(638)	(638)	—
Total	\$ 1,272,437	\$ —	\$ 1,272,437	\$ (82,543)

(in thousands)	External Sales	Inter- Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2016				
Contract Drilling				
U.S. Land	\$ 1,004,116	\$ —	\$ 1,004,116	\$ 143,855
Offshore	106,697	—	106,697	13,105
International Land	171,529	—	171,529	(13,924)
	1,282,342	—	1,282,342	143,036
Other	10,182	635	10,817	(4,839)
	1,292,524	635	1,293,159	138,197
Eliminations	—	(635)	(635)	—
Total	\$ 1,292,524	\$ —	\$ 1,292,524	\$ 138,197

Table of Contents

Summarized financial information of our reportable segments for the three months ended June 30, 2017 and 2016 is shown in the following tables:

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2017				
Contract Drilling				
U.S. Land	\$ 405,516	\$ —	\$ 405,516	\$ (7,980)
Offshore	33,711	—	33,711	6,456
International Land	55,075	—	55,075	4,927
	494,302	—	494,302	3,403
Other	4,262	222	4,484	(2,569)
	498,564	222	498,786	834
Eliminations	—	(222)	(222)	—
Total	\$ 498,564	\$ —	\$ 498,564	\$ 834

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2016				
Contract Drilling				
U.S. Land	\$ 285,028	\$ —	\$ 285,028	\$ 25,802
Offshore	30,492	—	30,492	2,084
International Land	47,983	—	47,983	(4,991)
	363,503	—	363,503	22,895
Other	2,983	206	3,189	(2,186)
	366,486	206	366,692	20,709
Eliminations	—	(206)	(206)	—
Total	\$ 366,486	\$ —	\$ 366,486	\$ 20,709

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Segment operating income (loss)	\$ 834	\$ 20,709	\$ (82,543)	\$ 138,197
Income from asset sales	1,862	547	17,593	7,820

Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

Corporate general and administrative costs and corporate depreciation	(30,724)	(34,512)	(77,914)	(78,982)
Operating income (loss)	(28,028)	(13,256)	(142,864)	67,035
Other income (expense)				
Interest and dividend income	1,700	778	4,028	2,310
Interest expense	(6,364)	(6,407)	(17,503)	(16,652)
Other	(911)	534	(350)	926
Total unallocated amounts	(5,575)	(5,095)	(13,825)	(13,416)
Income (loss) from continuing operations before income taxes	\$ (33,603)	\$ (18,351)	\$ (156,689)	\$ 53,619

Table of Contents

The following table presents total assets by reportable segment:

	June 30, 2017	September 30, 2016
	(in thousands)	
Total assets		
U.S. Land	\$ 4,974,364	\$ 5,005,299
Offshore	98,568	105,152
International Land	417,241	487,181
Other	134,804	36,141
	5,624,977	5,633,773
Investments and corporate operations	888,907	1,198,182
Total assets from continued operations	6,513,884	6,831,955
Discontinued operations	7	64
	\$ 6,513,891	\$ 6,832,019

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(in thousands)			
Operating Revenues				
United States	\$ 443,489	\$ 318,059	\$ 1,114,574	\$ 1,113,542
Argentina	43,167	33,208	114,516	118,365
Colombia	9,356	3,831	27,579	15,176
Ecuador	3	481	5	4,948
Other Foreign	2,549	10,907	15,763	40,493
Total	\$ 498,564	\$ 366,486	\$ 1,272,437	\$ 1,292,524

### 13. Pensions and Other Post-retirement Benefits

The following provides information at June 30, 2017 related to the Company-sponsored domestic defined benefit pension plan:

## Components of Net Periodic Benefit Cost

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Interest cost	\$ 975	\$ 1,116	\$ 2,925	\$ 3,347
Expected return on plan assets	(1,298)	(1,490)	(3,896)	(4,470)
Recognized net actuarial loss	574	493	1,724	1,479
Settlement	1,411	1,889	1,411	3,343
Net pension expense	\$ 1,662	\$ 2,008	\$ 2,164	\$ 3,699

We record settlement expense when benefit payments exceed the total annual service and interest costs.

Table of Contents

## Employer Contributions

We did not contribute to the Pension Plan during the nine months ended June 30, 2017. We could make contributions for the remainder of fiscal 2017 to fund distributions in lieu of liquidating assets.

## 14. Supplemental Cash Flow Information

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

	Nine Months Ended June 30,	
	2017	2016
	(in thousands)	
Capital expenditures incurred	\$ 315,735	\$ 198,606
Additions incurred prior year but paid for in current year	9,465	25,344
Additions incurred but not paid for as of the end of the period	(24,925)	(4,401)
Capital expenditures per Consolidated Statements of Cash Flows	\$ 300,275	\$ 219,549

## 15. International Risk Factors

We currently have foreign operations in South America and the Middle East. In the future, we may further expand the geographic reach of our operations. As a result, we are exposed to certain political, economic and other uncertainties not encountered in U.S. operations, including increased risks of social unrest, strikes, terrorism, war, kidnapping of employees, nationalization, forced negotiation or modification of contracts, difficulty resolving disputes and enforcing contract provisions, expropriation of equipment as well as expropriation of oil and gas exploration and drilling rights, taxation policies, foreign exchange restrictions and restrictions on repatriation of income and capital, currency rate fluctuations, increased governmental ownership and regulation of the economy and industry in the markets in which we operate, economic and financial instability of national oil companies, and restrictive governmental regulation, bureaucratic delays and general hazards associated with foreign sovereignty over certain areas in which operations are conducted.

South American countries, in particular, have historically experienced uneven periods of economic growth, as well as recession, periods of high inflation and general economic and political instability. From time to time these risks have impacted our business. For example, on June 30, 2010, the Venezuelan government expropriated 11 rigs and associated real and personal property owned by our Venezuelan subsidiary. Prior thereto, we also experienced currency devaluation losses in Venezuela and difficulty repatriating U.S. dollars to the United States. Today, our contracts for work in foreign countries generally provide for payment in U.S. dollars. However, in Argentina we are paid in Argentine pesos. The Argentine branch of one of our second-tier subsidiaries then remits U.S. dollars to its U.S. parent by converting the Argentine pesos into U.S. dollars through the Argentine Foreign Exchange Market and repatriating the U.S. dollars.

Estimates from published sources indicate that Argentina is a highly inflationary country, which is defined as cumulative inflation rates exceeding 100 percent in the most recent three-year period based on inflation data published by the respective governments. Nonetheless, all of our foreign operations use the U.S. dollar as the functional currency and local currency monetary assets and liabilities are remeasured into U.S. dollars with gains and losses resulting from foreign currency transactions included in current results of operations.

In December 2015, the Argentine peso experienced a sharp devaluation resulting in an aggregate foreign currency loss of \$9.4 million for the nine months ended June 30, 2016. Subsequent to the sharp devaluation, the Argentine peso significantly stabilized and the Argentine Foreign Exchange Market controls now place fewer restrictions on repatriating U.S. dollars. For the nine months ended June 30, 2017, we experienced aggregate foreign currency losses of \$3.3 million. However, in the future, other contracts or applicable law may require payments to be made in



Table of Contents

foreign currencies. As such, there can be no assurance that we will not experience in Argentina or elsewhere a devaluation of foreign currency, foreign exchange restrictions or other difficulties repatriating U.S. dollars even if we are able to negotiate contract provisions designed to mitigate such risks. In the event of future payments in foreign currencies and an inability to timely exchange foreign currencies for U.S. dollars, we may incur currency devaluation losses which could have a material adverse impact on our business, financial condition and results of operations.

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, 2017, approximately 12.4 percent of our consolidated operating revenues were generated from international locations in our contract drilling business. During the nine months ended June 30, 2017, approximately 90.0 percent of operating revenues from international locations were from operations in South America. Substantially all of the South American operating revenues were from Argentina and Colombia. The future occurrence of one or more international events arising from the types of risks described above could have a material adverse impact on our business, financial condition and results of operations.

16.Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes virtually all existing revenue recognition guidance. Throughout 2016 and in early 2017, additional accounting guidance was issued to clarify the not yet effective revenue recognition guidance issued in May 2014. The ASU provides for full retrospective, modified retrospective, or use of the cumulative effect method during the period of adoption. During 2017, we established an implementation team and began a detailed analysis of our contracts in place during the retrospective period. We anticipate we will have two primary revenue streams consisting of lease and service components. The requirements in this ASU are effective during interim and annual periods beginning after December 15, 2017. We expect to adopt this new revenue guidance utilizing the modified retrospective method of adoption in the first quarter of fiscal 2019. As we are still evaluating certain aspects of our contract drilling revenue, we are unable to quantify the impact that the new revenue standard will have on our consolidated financial statements at this time.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The guidance provides principles and definitions for management that are intended to reduce diversity in the timing and content of disclosures provided in footnotes. Under the standard, management is required to evaluate for each annual and

interim reporting period whether it is probable that the entity will not be able to meet its obligations as they become due within one year after the date that financial statements are issued (or are available to be issued, where applicable). The standard is effective for annual periods ending after December 15, 2016. We do not expect the adoption of this standard to have an impact on the consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This update simplifies the subsequent measurement of inventory. It replaces the current lower of cost or market test with the lower of cost or net realizable value test. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new standard should be applied prospectively and is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

Table of Contents

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The standard requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The provisions of ASU No. 2016-01 are effective for interim and annual periods starting after December 15, 2017. At adoption, a cumulative-effect adjustment to beginning retained earnings will be recorded. We will adopt this standard on October 1, 2018. Subsequent to adoption, changes in the fair value of our available-for-sale investments will be recognized in net income and the effect will be subject to stock market fluctuations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU No. 2016-02 will require organizations that lease assets — referred to as “lessees” — to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU No. 2016-02, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities are to be expanded to include qualitative along with specific quantitative information. For public entities, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU No. 2016-02 mandates a modified retrospective transition method. We expect to adopt this new lease guidance utilizing the modified retrospective method of adoption in the first quarter of fiscal 2019 concurrently with ASU 2014-09. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU No. 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses. The ASU sets forth a "current expected credit loss" (CECL) model which requires companies to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This standard is effective for interim and annual periods beginning after December 15, 2019. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The ASU is intended to reduce diversity in practice in presentation and classification of certain cash receipts and cash payments by providing guidance on eight specific cash flow issues. The ASU is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted, including adoption during an interim period. We are currently assessing the impact this standard will have on our

consolidated statement of cash flows.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 will change how employers that sponsor defined benefit pension and/or other post-retirement benefit plans present the net periodic benefit cost in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. This standard is effective for public business entities for annual periods or any interim periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted. We do not expect the new guidance to have a material impact on its financial condition or results of operation.

Table of Contents

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows - Restricted Cash. The ASU requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. We will adopt the guidance beginning October 1, 2018 applied retrospectively to all periods presented. The adoption is not expected to have a material impact on our consolidated financial position or cash flows.

## 17. Guarantor and Non-Guarantor Financial Information

In March 2015, Helmerich & Payne International Drilling Co. (“the issuer”), a 100 percent owned subsidiary of Helmerich & Payne, Inc. (“parent”, “the guarantor”), issued senior unsecured notes with an aggregate principal amount of \$500.0 million. The notes are fully and unconditionally guaranteed by the parent. No subsidiaries of parent currently guarantee the notes, subject to certain provisions that if any subsidiary guarantees certain other debt of the issuer or parent, then such subsidiary will provide a guarantee of the obligations under the notes.

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

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands)

	Three Months Ended June 30, 2017				Total
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ —	\$ 439,227	\$ 59,355	\$ (18)	\$ 498,564
Operating costs and other	3,364	463,220	60,224	(216)	526,592
Operating loss from continuing operations	(3,364)	(23,993)	(869)	198	(28,028)
Other income (expense), net	(4)	2,052	(1,061)	(198)	789
Interest expense	(87)	(5,294)	(983)	—	(6,364)

Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

Equity in net income (loss) of subsidiaries	(19,510)	(85)	—	19,595	—
Loss from continuing operations before income taxes	(22,965)	(27,320)	(2,913)	19,595	(33,603)
Income tax provision	(1,166)	(7,360)	(1,952)	—	(10,478)
Loss from continuing operations	(21,799)	(19,960)	(961)	19,595	(23,125)
Loss from discontinued operations before income taxes	—	—	3,223	—	3,223
Income tax provision	—	—	1,897	—	1,897
Loss from discontinued operations	—	—	1,326	—	1,326
Net income (loss)	\$ (21,799)	\$ (19,960)	\$ 365	\$ 19,595	\$ (21,799)

Table of Contents

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Three Months Ended June 30, 2017				Total Consolidated
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	
Net income (loss)	\$ (21,799)	\$ (19,960)	\$ 365	\$ 19,595	\$ (21,799)
Other comprehensive income (loss), net of income taxes:					
Unrealized depreciation on securities, net	—	(6,899)	—	—	(6,899)
Minimum pension liability adjustments, net	104	261	—	—	365
Other comprehensive income (loss)	104	(6,638)	—	—	(6,534)
Comprehensive income (loss)	\$ (21,695)	\$ (26,598)	\$ 365	\$ 19,595	\$ (28,333)

Table of Contents

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands)

	Three Months Ended June 30, 2016				Total Consolidated
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	
Operating revenue	\$ —	\$ 315,077	\$ 51,429	\$ (20)	\$ 366,486
Operating costs and other	3,712	314,620	61,700	(290)	379,742
Operating income (loss) from continuing operations	(3,712)	457	(10,271)	270	(13,256)
Other income, net	16	1,290	276	(270)	1,312
Interest expense	(62)	(5,597)	(748)	—	(6,407)
Equity in net loss of subsidiaries	(18,572)	(7,796)	—	26,368	—
Loss from continuing operations before income taxes	(22,330)	(11,646)	(10,743)	26,368	(18,351)
Income tax provision	(1,130)	7,230	(3,258)	—	2,842
Loss from continuing operations	(21,200)	(18,876)	(7,485)	26,368	(21,193)
Income from discontinued operations before income taxes	—	—	2,193	—	2,193
Income tax provision	—	—	2,200	—	2,200
Loss from discontinued operations	—	—	(7)	—	(7)
Net loss	\$ (21,200)	\$ (18,876)	\$ (7,492)	\$ 26,368	\$ (21,200)

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Three Months Ended June 30, 2016				Total Consolidated
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	
Net loss	\$ (21,200)	\$ (18,876)	\$ (7,492)	\$ 26,368	\$ (21,200)



Other comprehensive income, net  
of income taxes:

Unrealized depreciation on securities, net	—	9,744	—	—	9,744
Minimum pension liability adjustments, net	107	207	—	—	314
Other comprehensive income	107	9,951	—	—	10,058
Comprehensive loss	\$ (21,093)	\$ (8,925)	\$ (7,492)	\$ 26,368	\$ (11,142)

30

---

Table of Contents

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands)

	Nine Months Ended June 30, 2017				Total
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ —	\$ 1,103,877	\$ 168,611	\$ (51)	\$ 1,272,437
Operating costs and other	10,124	1,218,266	187,588	(677)	1,415,301
Operating loss from continuing operations	(10,124)	(114,389)	(18,977)	626	(142,864)
Other income, net	(3)	4,885	(578)	(626)	3,678
Interest expense	(260)	(15,151)	(2,092)	—	(17,503)
Equity in net loss of subsidiaries	(99,179)	(10,874)	—	110,053	—
Loss from continuing operations before income taxes	(109,566)	(135,529)	(21,647)	110,053	(156,689)
Income tax provision	(3,886)	(37,320)	(9,331)	—	(50,537)
Loss from continuing operations	(105,680)	(98,209)	(12,316)	110,053	(106,152)
Loss from discontinued operations before income taxes	—	—	2,705	—	2,705
Income tax provision	—	—	2,233	—	2,233
Loss from discontinued operations	—	—	472	—	472
Net loss	\$ (105,680)	\$ (98,209)	\$ (11,844)	\$ 110,053	\$ (105,680)

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Nine Months Ended June 30, 2017				Total
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated

Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

Net loss	\$ (105,680)	\$ (98,209)	\$ (11,844)	\$ 110,053	\$ (105,680)
Other comprehensive income (loss), net of income taxes:					
Unrealized depreciation on securities, net	—	(4,994)	—	—	(4,994)
Minimum pension liability adjustments, net	316	781	—	—	1,097
Other comprehensive income (loss)	316	(4,213)	—	—	(3,897)
Comprehensive loss	\$ (105,364)	\$ (102,422)	\$ (11,844)	\$ 110,053	\$ (109,577)

31

---

Table of Contents

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands)

	Nine Months Ended June 30, 2016				Total Consolidated
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	
Operating revenue	\$ —	\$ 1,103,361	\$ 189,216	\$ (53)	\$ 1,292,524
Operating costs and other	9,573	1,003,369	213,640	(1,093)	1,225,489
Operating income (loss) from continuing operations	(9,573)	99,992	(24,424)	1,040	67,035
Other income (expense), net	(235)	2,680	1,831	(1,040)	3,236
Interest expense	(186)	(15,587)	(879)	—	(16,652)
Equity in net income (loss) of subsidiaries	22,042	(23,811)	—	1,769	—
Income (loss) from continuing operations before income taxes	12,048	63,274	(23,472)	1,769	53,619
Income tax provision	(3,959)	42,114	(4,415)	—	33,740
Income (loss) from continuing operations	16,007	21,160	(19,057)	1,769	19,879
Income from discontinued operations before income taxes	—	—	2,241	—	2,241
Income tax provision	—	—	6,113	—	6,113
Loss from discontinued operations	—	—	(3,872)	—	(3,872)
Net income (loss)	\$ 16,007	\$ 21,160	\$ (22,929)	\$ 1,769	\$ 16,007

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

Nine Months Ended June 30, 2016

Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
Net income (loss)	\$ 16,007	\$ 21,160	\$ (22,929)	\$ 1,769	\$ 16,007
Other comprehensive income (loss), net of income taxes:					
Unrealized depreciation on securities, net	—	(2,719)	—	—	(2,719)
Minimum pension liability adjustments, net	322	618	—	—	940
Other comprehensive income (loss)	322	(2,101)	—	—	(1,779)
Comprehensive income (loss)	\$ 16,329	\$ 19,059	\$ (22,929)	\$ 1,769	\$ 14,228

Table of Contents

## CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands)

	June 30, 2017				Total
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ (1,141)	\$ 559,945	\$ 13,983	\$ —	\$ 572,787
Short-term investments	—	39,894	—	—	39,894
Accounts receivable, net of reserve	2,095	380,873	57,909	(5)	440,872
Inventories	—	103,066	35,337	—	138,403
Prepaid expenses and other	14,701	7,159	66,820	(30,255)	58,425
Current assets of discontinued operations	—	—	7	—	7
Total current assets	15,655	1,090,937	174,056	(30,260)	1,250,388
Investments	13,606	63,380	—	—	76,986
Property, plant and equipment, net	51,118	4,658,226	353,570	—	5,062,914
Intercompany	90,685	1,736,767	269,194	(2,096,646)	—
Goodwill	—	—	51,967	—	51,967
Intangible assets, net of amortization	—	—	51,569	—	51,569
Other assets	4,992	5,577	9,498	—	20,067
Investment in subsidiaries	5,480,782	197,768	—	(5,678,550)	—
Total assets	\$ 5,656,838	\$ 7,752,655	\$ 909,854	\$ (7,805,456)	\$ 6,513,891
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 80,333	\$ 52,929	\$ 3,944	\$ —	\$ 137,206
Accrued liabilities	26,104	172,480	28,319	(30,260)	196,643
Current liabilities of discontinued operations	—	—	80	—	80
Total current liabilities	106,437	225,409	32,343	(30,260)	333,929
Noncurrent liabilities:					
Long-term debt	—	492,637	—	—	492,637
Deferred income taxes	(9,099)	1,272,699	61,650	—	1,325,250
Intercompany	1,284,237	255,190	557,119	(2,096,546)	—
Other	25,359	41,849	41,738	—	108,946

Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

Noncurrent liabilities of discontinued operations	—	—	3,225	—	3,225
Total noncurrent liabilities	1,300,497	2,062,375	663,732	(2,096,546)	1,930,058
Shareholders' equity:					
Common stock	11,190	100	—	(100)	11,190
Additional paid-in capital	478,231	51,993	967	(52,960)	478,231
Retained earnings	3,954,705	5,411,898	212,812	(5,624,710)	3,954,705
Accumulated other comprehensive income	(4,101)	880	—	(880)	(4,101)
Treasury stock, at cost	(190,121)	—	—	—	(190,121)
Total shareholders' equity	4,249,904	5,464,871	213,779	(5,678,650)	4,249,904
Total liabilities and shareholders' equity	\$ 5,656,838	\$ 7,752,655	\$ 909,854	\$ (7,805,456)	\$ 6,513,891

Table of Contents

## CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands)

	September 30, 2016				
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ (955)	\$ 899,028	\$ 7,488	\$ —	\$ 905,561
Short-term investments	—	44,148	—	—	44,148
Accounts receivable, net of reserve	2	325,325	51,121	(1,279)	375,169
Inventories	—	87,946	36,379	—	124,325
Prepaid expenses and other	6,928	20,625	71,753	(21,239)	78,067
Assets held for sale	—	18,471	26,881	—	45,352
Current assets of discontinued operations	—	—	64	—	64
Total current assets	5,975	1,395,543	193,686	(22,518)	1,572,686
Investments	13,431	71,524	—	—	84,955
Property, plant and equipment, net	59,173	4,716,736	368,824	—	5,144,733
Intercompany	16,147	1,399,323	260,939	(1,676,409)	—
Goodwill	—	—	4,718	—	4,718
Intangible assets, net of amortization	—	—	919	—	919
Other assets	233	267	23,508	—	24,008
Investment in subsidiaries	5,579,713	208,118	—	(5,787,831)	—
Total assets	\$ 5,674,672	\$ 7,791,511	\$ 852,594	\$ (7,486,758)	\$ 6,832,019
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 80,000	\$ 10,868	\$ 5,828	\$ (1,274)	\$ 95,422
Accrued liabilities	1,822	176,985	35,598	20,234	234,639
Current liabilities of discontinued operations	—	—	59	—	59
Total current liabilities	81,822	187,853	41,485	18,960	330,120
Noncurrent liabilities:					
Long-term debt	—	491,847	—	—	491,847
Deferred income taxes	(5,930)	1,303,324	45,062	—	1,342,456
Intercompany	1,016,673	209,276	491,838	(1,717,787)	—
Other	21,182	36,379	45,220	—	102,781



Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

Noncurrent liabilities of discontinued operations	—	—	3,890	—	3,890
Total noncurrent liabilities	1,031,925	2,040,826	586,010	(1,717,787)	1,940,974
Shareholders' equity:					
Common stock	11,140	100	—	(100)	11,140
Additional paid-in capital	448,452	47,533	549	(48,082)	448,452
Retained earnings	4,289,807	5,510,105	224,550	(5,734,655)	4,289,807
Accumulated other comprehensive income (loss)	(204)	5,094	—	(5,094)	(204)
Treasury stock, at cost	(188,270)	—	—	—	(188,270)
Total shareholders' equity	4,560,925	5,562,832	225,099	(5,787,931)	4,560,925
Total liabilities and shareholders' equity	\$ 5,674,672	\$ 7,791,511	\$ 852,594	\$ (7,486,758)	\$ 6,832,019

Table of Contents

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended June 30, 2017				Total Consolidated
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	
Net cash provided by (used in) operating activities	\$ (4,457)	\$ 231,133	\$ 9,458	\$ —	\$ 236,134
<b>INVESTING ACTIVITIES:</b>					
Capital expenditures	(2,344)	(293,946)	(3,985)	—	(300,275)
Purchase of short-term investments	—	(48,958)	—	—	(48,958)
Acquisition of business, net cash received	(70,416)	—	—	—	(70,416)
Proceeds from sale of short-term investments	—	53,150	—	—	53,150
Intercompany transfers	72,760	(72,760)	—	—	—
Proceeds from asset sales	—	17,316	605	—	17,921
Net cash provided by (used in) investing activities	—	(345,198)	(3,380)	—	(348,578)
<b>FINANCING ACTIVITIES:</b>					
Intercompany transfers	229,061	(229,061)	—	—	—
Dividends paid	(229,061)	—	—	—	(229,061)
Exercise of stock options, net of tax withholding	10,458	—	—	—	10,458
Tax withholdings related to net share settlements of restricted stock	(5,848)	—	—	—	(5,848)
Excess tax benefit from stock-based compensation	(339)	4,043	417	—	4,121
Net cash provided by (used in) financing activities	4,271	(225,018)	417	—	(220,330)
Net increase (decrease) in cash and cash equivalents	(186)	(339,083)	6,495	—	(332,774)
Cash and cash equivalents, beginning of period	(955)	899,028	7,488	—	905,561
Cash and cash equivalents, end of period	\$ (1,141)	\$ 559,945	\$ 13,983	\$ —	\$ 572,787



Table of Contents

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended June 30, 2016				Total Consolidated
	Guarantor/ Parent	Issuer Subsidiary	Non-Guarantor Subsidiaries	Eliminations	
Net cash provided by (used in) operating activities	\$ 4,127	\$ 631,371	\$ (20,088)	\$ —	\$ 615,410
<b>INVESTING ACTIVITIES:</b>					
Capital expenditures	(15,515)	(200,611)	(3,423)	—	(219,549)
Purchase of short-term investments	—	(36,958)	—	—	(36,958)
Proceeds from sale of short-term investments	—	32,681	—	—	32,681
Intercompany transfers	15,515	(15,515)	—	—	—
Proceeds from asset sales	8	10,956	1,840	—	12,804
Net cash provided by (used in) investing activities	8	(209,447)	(1,583)	—	(211,022)
<b>FINANCING ACTIVITIES:</b>					
Debt issuance costs	—	(32)	—	—	(32)
Intercompany transfers	224,040	(224,040)	—	—	—
Dividends paid	(224,040)	—	—	—	(224,040)
Exercise of stock options, net of tax withholding	483	—	—	—	483
Tax withholdings related to net share settlements of restricted stock	(3,912)	—	—	—	(3,912)
Excess tax benefit from stock-based compensation	(788)	1,351	198	—	761
Net cash provided by (used in) financing activities	(4,217)	(222,721)	198	—	(226,740)
Net increase (decrease) in cash and cash equivalents	(82)	199,203	(21,473)	—	177,648
Cash and cash equivalents, beginning of period	(838)	693,273	36,949	—	729,384
Cash and cash equivalents, end of period	\$ (920)	\$ 892,476	\$ 15,476	\$ —	\$ 907,032



Table of Contents

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

June 30, 2017

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 2016 Annual Report on Form 10-K. Our future operating results may be affected by various trends and factors which are beyond our control. These include, among other factors, fluctuations in natural gas and crude oil prices, the loss of one or a number of our largest customers, early termination of drilling contracts and failure to realize backlog drilling revenue, forfeiture of early termination payments under fixed term contracts due to sustained unacceptable performance, unsuccessful collection of receivables, inability to procure key rig components, failure to timely deliver rigs within applicable grace periods, disruption to or cessation of the business of our limited source vendors or fabricators, currency exchange losses, expropriation of assets and other international uncertainties, loss of well control, pollution of offshore waters and reservoir damage, operational risks that are not fully insured against or covered by adequate contractual indemnities, passage of laws or regulations including those limiting hydraulic fracturing, litigation and governmental investigations, consideration and possible action by the Department of Interior regarding the events that were the subject matter of our prior (previously disclosed) plea agreement with the United States Department of Justice, failure to comply with the United States Foreign Corrupt Practices Act, foreign anti-bribery laws and other governmental laws and regulations, a sluggish global economy, changes in general economic and political conditions, adverse weather conditions including hurricanes, rapid or unexpected changes in drilling or other technologies and uncertain business conditions that affect our businesses. Accordingly, past results and trends should not be used by investors to anticipate future results or trends. Our risk factors are more fully described in our 2016 Annual Report on Form 10-K and elsewhere in this Form 10-Q.

With the exception of historical information, the matters discussed in Management's Discussion & Analysis of Financial Condition and Results of Operations include forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", or "continue" or the negative thereof or similar terminology. 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. Except as required by law, we undertake no duty to update or revise our forward-looking statements based on changes of internal estimates on expectations or otherwise.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2017 vs. Three Months Ended June 30, 2016

We reported a net loss from continuing operations of \$23.1 million (\$0.22 loss per diluted share) from operating revenues of \$498.6 million for the third quarter ended June 30, 2017 compared with a net loss from continuing operations of \$21.2 million (\$0.20 loss per diluted share) from operating revenues of \$366.5 million for the third quarter of fiscal year 2016. Including discontinued operations, we recorded a net loss of \$21.8 million (\$0.21 loss per diluted share) for the three months ended June 30, 2017 compared to a net loss of \$21.2 million (\$0.20 per diluted share) for the three months ended June 30, 2016. Income from continuing operations for the third quarter of fiscal 2017 includes approximately \$1.3 million (\$0.01 per diluted share) of after-tax gains from the sale of assets. The net loss for the third quarter of fiscal 2016 includes approximately \$0.3 million (less than \$0.01 per diluted share) of after-tax gains from the sale of assets.

Table of Contents

On June 2, 2017, we completed a merger transaction (“MOTIVE Merger”) pursuant to which an unaffiliated drilling technology company, MOTIVE Drilling Technologies, Inc., a Delaware corporation (“MOTIVE”), was merged with and into our wholly owned subsidiary Spring Merger Sub, Inc., a Delaware corporation. MOTIVE survived the transaction and is now a wholly owned subsidiary of the Company. At the effective time of the MOTIVE Merger, MOTIVE shareholders received aggregate cash consideration of \$74.3 million, net of customary closing adjustments, and may receive up to an additional \$25.0 million in potential earnout payments based on future performance. Transaction costs related to the MOTIVE Merger incurred during the nine months ended June 30, 2017, were \$2.8 million and are recorded in the Consolidated Statement of Operations within the general and administrative expense line item. We recorded revenue of \$1.1 million and a net loss of \$0.7 million related to the MOTIVE Merger during the three and nine months ended June 30, 2017.

The following tables summarize operations by reportable operating segment for the three months ended June 30, 2017 and 2016. 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 also exclude gains and losses from translation of foreign currency transactions. Segment operating income is described in detail in Note 12 to the Consolidated Condensed Financial Statements.

	Three Months Ended June 30,	
	2017	2016
	(in thousands, except days and per day amounts)	
U.S. LAND OPERATIONS		
Operating revenues	\$ 405,516	\$ 285,028
Direct operating expenses	277,372	122,694
General and administrative expense	13,347	14,221
Depreciation	122,777	116,061
Asset impairment charge	—	6,250
Segment operating income (loss)	\$ (7,980)	\$ 25,802
Operating Statistics:		
Revenue days	16,577	7,483
Average rig revenue per day	\$ 21,986	\$ 35,474
Average rig expense per day	\$ 14,256	\$ 13,780
Average rig margin per day	\$ 7,730	\$ 21,694
Rig utilization	52	% 24

The U.S. Land segment had an operating loss of \$8.0 million for the third quarter of fiscal 2017 compared to operating income of \$25.8 million in the same period of fiscal 2016. Revenues were \$405.5 million and \$285.0 million in the third quarter of fiscal 2017 and 2016, respectively. Included in U.S. land revenues for the three months ended June 30, 2017 and 2016 are reimbursements for “out-of-pocket” expenses of \$41.1 million and \$19.6 million, respectively. Also included in revenue for the three months ended June 30, 2017 is early termination revenue of \$5.1



million compared to \$80.7 million during the same period of fiscal 2016.

Excluding early termination per day revenue of \$310 and \$10,790 for the third quarter of fiscal 2017 and 2016, respectively, average rig revenue per day decreased by \$3,008 to \$21,676. While our activity has increased year-over-year in response to higher commodity prices, pricing for recently contracted rigs is relatively lower than the previous period and rigs with legacy term contracts at higher dayrates make up a lower proportion of our total activity due to continued contract expirations.

Average expense per day increased \$476 to \$14,256 for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. During the third quarter of fiscal 2017, we incurred start-up expenses related to rigs returning to work during the quarter and for rigs that commenced work in July 2017. Additionally, during the third quarter of fiscal 2016, we had a higher number of idle rigs contributing to the average rig expense per day, offset by the impact of a higher proportion of our contracted rigs on standby generating revenue days with minimal average daily expense. Excluding the impact of these factors, rigs working during the third quarter of fiscal 2017 incurred an average rig expense per day similar to rigs working in the third quarter of fiscal 2016.

Table of Contents

Depreciation includes abandonments of \$7.7 million for the three months ended June 30, 2017. Upgrades to our rig fleet to meet customer demands for additional capabilities resulted in the abandonment of older rig components. Excluding abandonments, depreciation decreased \$1.0 million in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. The decrease is primarily due to lower levels of capital expenditures during fiscal 2017 and 2016 and legacy assets reaching the end of their depreciable life during fiscal 2016 and 2017.

During fiscal 2017, we have experienced an increase in revenue days and utilization as rigs returned to work. U.S. land rig utilization increased to 52 percent for the third quarter of 2017 compared to 24 percent for the third quarter of fiscal 2016. U.S. land rig revenue days for the third quarter of fiscal 2017 were 16,577 compared with 7,483 for the same period of fiscal 2016, with an average of 182.2 and 82.2 rigs working, respectively. We expect rig utilization to increase in the fourth quarter of fiscal 2017 due to rig additions during the third quarter of fiscal 2017.

At June 30, 2017, 190 out of 350 existing rigs in the U.S. Land segment were contracted. Of the 190 contracted rigs, 99 were under fixed term contracts and 91 were working in the spot market. As of July 27, 2017, 189 rigs were contracted in the segment. Based on current early termination notices, early termination revenue is expected to be approximately \$4.6 million during the fourth fiscal quarter of 2017.

	Three Months Ended June 30,	
	2017	2016
	(in thousands, except days and per day amounts)	
OFFSHORE OPERATIONS		
Operating revenues	\$ 33,711	\$ 30,492
Direct operating expenses	23,656	24,249
General and administrative expense	969	975
Depreciation	2,630	3,184
Segment operating income	\$ 6,456	\$ 2,084
Operating Statistics:		
Revenue days	546	637
Average rig revenue per day	\$ 35,644	\$ 25,568
Average rig expense per day	\$ 24,141	\$ 18,823
Average rig margin per day	\$ 11,503	\$ 6,745
Rig utilization	75	% 78

Offshore revenues include reimbursements for “out-of-pocket” expenses of \$5.2 million and \$5.3 million for the three months ended June 30, 2017 and 2016, respectively.

Average rig revenue per day and average rig margin per day increased in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016 primarily due to several rigs moving to higher pricing from previous standby or special dayrates.

At the end of June 30, 2017, six of our available eight platform rigs were contracted compared to seven of our available nine rigs being contracted at June 30, 2016.

Table of Contents

	Three Months Ended June 30,	
	2017	2016
	(in thousands, except days and per day amounts)	
<b>INTERNATIONAL LAND OPERATIONS</b>		
Operating revenues	\$ 55,075	\$ 47,983
Direct operating expenses	35,006	38,230
General and administrative expense	714	772
Depreciation	14,428	13,972
Segment operating income (loss)	\$ 4,927	\$ (4,991)
Operating Statistics:		
Revenue days	1,633	1,274
Average rig revenue per day	\$ 32,708	\$ 34,693
Average rig expense per day	\$ 19,645	\$ 26,156
Average rig margin per day	\$ 13,063	\$ 8,537
Rig utilization	47	% 37
		%

The International Land segment had an operating income of \$4.9 million for the third quarter of fiscal 2017 compared to an operating loss of \$5.0 million in the same period of fiscal 2016. Included in International land revenues for the three months ended June 30, 2017 and 2016 are reimbursements for “out-of-pocket” expenses of \$1.7 million and \$3.8 million, respectively.

In December 2016, we received early termination notification for five rigs located in our International Land segment. During the second quarter of fiscal 2017, the early termination notification was withdrawn. The customer has successfully assigned the contracts to other operators. Two of the rigs began drilling in the third quarter. The remaining three are expected to begin drilling in the fourth quarter of fiscal 2017. Average rig margin per day increased \$4,526 to \$13,063 primarily due to retroactive payments related to a prior period for rigs that had been early terminated.

**RESEARCH AND DEVELOPMENT**

For the three months ended June 30, 2017 and 2016, we incurred \$3.1 million and \$2.7 million, respectively, of research and development expenses primarily related to ongoing development of a rotary steerable system.

**OTHER**

General and administrative expenses decreased \$3.6 million for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. Contributing to the decrease was expense related to an employer match to our 401k/Employee Thrift Plan due to regulatory requirements that was incurred in the third quarter of fiscal 2016.

We had an income tax benefit of \$10.5 million in the third quarter of fiscal 2017 compared to income tax expense of \$2.8 million in the third quarter of fiscal 2016 and the effective tax rate was 31.2 percent compared to -15.5 percent. The effective tax rate for the three months ended June 30, 2016 was impacted by a December 2015 tax law change which resulted in a reduction of the fiscal 2015 Internal Revenue Code Section 199 deduction for domestic production activities. We expect the effective tax rate for the remaining quarter of fiscal 2017 to be between 31 and 32 percent.

#### Nine Months Ended June 30, 2017 vs. Nine Months Ended June 30, 2016

We reported a net loss of \$105.7 million (\$0.99 loss per diluted share) from operating revenues of \$1.3 billion for the nine months ended June 30, 2017 compared with net income of \$16.0 million (\$0.13 per diluted share) from operating revenues of \$1.3 billion for the first nine months of fiscal year 2016. The net loss for the first nine months ended June 30, 2017 includes approximately \$11.9 million (\$0.11 per diluted share) of after-tax gains from the sale of assets. Net income for the first nine months of fiscal 2016 includes approximately \$4.7 million (\$0.04 per diluted share) of after-tax gains from the sale of assets.

Table of Contents

In March 2016, the Venezuelan government implemented the previously announced plans for a new foreign currency exchange system. The implementation of this system resulted in a reported loss from discontinued operations of \$3.9 million (\$0.04 loss per diluted share) for the nine months ended June 30, 2016, all of which corresponds to the Company's former operations in Venezuela.

The following tables summarize operations by reportable operating segment for the nine months ended June 30, 2017 and 2016. 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 also exclude gains and losses from translation of foreign currency transactions. Segment operating income is described in detail in Note 12 to the Consolidated Condensed Financial Statements.

	Nine Months Ended June 30,	
	2017	2016
	(in thousands, except days and per day amounts)	
U.S. LAND OPERATIONS		
Operating revenues	\$ 1,000,119	\$ 1,004,116
Direct operating expenses	686,227	460,119
General and administrative expense	37,562	38,790
Depreciation	367,048	355,102
Asset impairment charge	—	6,250
Segment operating income (loss)	\$ (90,718)	\$ 143,855
Operating Statistics:		
Revenue days	39,527	29,029
Average rig revenue per day	\$ 22,902	\$ 32,251
Average rig expense per day	\$ 14,942	\$ 13,532
Average rig margin per day	\$ 7,960	\$ 18,719
Rig utilization	42	% 31
		%

The U.S. Land segment had an operating loss of \$90.7 million for the first nine months of fiscal 2017 compared to operating income of \$143.9 million in the same period of fiscal 2016. Revenues were \$1.0 billion in both the first nine months of fiscal 2017 and 2016. Included in U.S. land revenues for the nine months ended June 30, 2017 and 2016 are reimbursements for "out-of-pocket" expenses of \$94.9 million and \$67.9 million, respectively. Also included in revenue for the nine months ended June 30, 2017 is early termination revenue of \$19.9 million compared to \$189.2 million during the same period of fiscal 2016.

Excluding early termination per day revenue of \$503 and \$6,517 for the first nine months of fiscal 2017 and 2016, respectively, average rig revenue per day decreased by \$3,335 to \$22,399. Pricing for recently contracted rigs is relatively lower than the previous period and rigs with legacy term contracts at higher dayrates make up a lower proportion of our total activity due to continued contract expirations.

Average expense per day increased \$1,410 to \$14,942 for the nine months ended June 30, 2017 compared to the same period ended June 30, 2016. During fiscal 2017, we incurred significant start-up expenses related to rigs returning to work during the year. Additionally, during the nine months ended June 30, 2016, we had a higher number of idle rigs contributing to the average rig expense per day, offset by the impact of a higher proportion of our contracted rigs on standby generating revenue days with minimal average daily expense. Excluding the impact of these factors, rigs working during the nine months ended June 30, 2017 incurred an average rig expense per day similar to rigs working in the prior year comparative period.

Depreciation includes abandonments of \$26.8 million and \$0.7 million for the nine months ended June 30, 2017 and 2016, respectively. Upgrades to our rig fleet to meet customer demands for additional capabilities resulted in the abandonment of older rig components. Excluding abandonments, depreciation decreased \$20.4 million in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016. The decrease is primarily due to lower levels of capital expenditures during fiscal 2017 and 2016 and legacy assets reaching the end of their depreciable life during fiscal

Table of Contents

2016 and 2017. During the nine months ended June 30, 2016, we recorded an asset impairment charge of \$6.3 million to reduce the carrying value in used drilling equipment classified as held for sale to their estimated fair values, based on expected sales prices. The used drilling equipment is from rigs that were decommissioned from service in prior fiscal periods and written down to their estimated recoverable value at the time of decommissioning.

During fiscal 2017, we have experienced an increase in revenue days and utilization as rigs returned to work. U.S. land rig utilization increased to 42 percent for the first nine months of 2017 compared to 31 percent for the first nine months of fiscal 2016. U.S. land rig revenue days for the first nine months of fiscal 2017 were 39,527 compared with 29,029 for the same period of fiscal 2016, with an average of 144.8 and 105.9 rigs working, respectively. We expect rig utilization to increase in the fourth quarter of fiscal 2017 due to rig additions during the third quarter of fiscal 2017.

At June 30, 2017, 190 out of 350 existing rigs in the U.S. Land segment were contracted. Of the 190 contracted rigs, 99 were under fixed term contracts and 91 were working in the spot market. As of July 27, 2017, 189 rigs were contracted in the segment. Based on current early termination notices, early termination revenue is expected to be approximately \$4.6 million during the fourth fiscal quarter of 2017.

	Nine Months Ended June 30,			
	2017	2016		
	(in thousands, except days and per day amounts)			
<b>OFFSHORE OPERATIONS</b>				
Operating revenues	\$ 103,758	\$ 106,697		
Direct operating expenses	72,524	81,607		
General and administrative expense	2,787	2,674		
Depreciation	9,295	9,311		
Segment operating income	\$ 19,152	\$ 13,105		
Operating Statistics:				
Revenue days	1,785	2,064		
Average rig revenue per day	\$ 34,204	\$ 27,086		
Average rig expense per day	\$ 23,300	\$ 19,721		
Average rig margin per day	\$ 10,904	\$ 7,365		
Rig utilization	77	% 84	%	%

Offshore revenues include reimbursements for “out-of-pocket” expenses of \$15.7 million and \$17.7 million for the first nine months ended June 30, 2017 and 2016, respectively.



Average rig revenue per day and average rig margin per day increased in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016 primarily due to several rigs moving to higher pricing from previous standby or special dayrates.

At the end of June 30, 2017, six of our available eight platform rigs were contracted compared to seven of our available nine rigs being contracted at June 30, 2016.

Table of Contents

	Nine Months Ended June 30,			
	2017		2016	
	(in thousands, except days and per day amounts)			
<b>INTERNATIONAL LAND OPERATIONS</b>				
Operating revenues	\$ 157,863		\$ 171,529	
Direct operating expenses	120,537		140,351	
General and administrative expense	2,303		2,377	
Depreciation	40,248		42,725	
Segment operating loss	\$ (5,225)		\$ (13,924)	
Operating Statistics:				
Revenue days	3,660		3,992	
Average rig revenue per day	\$ 41,134		\$ 39,382	
Average rig expense per day	\$ 30,328		\$ 29,050	
Average rig margin per day	\$ 10,806		\$ 10,332	
Rig utilization	35	%	38	%

The International Land segment had an operating loss of \$5.2 million for the first nine months of fiscal 2017 compared to an operating loss of \$13.9 million in the same period of fiscal 2016. Included in International land revenues for the nine months ended June 30, 2017 and 2016 are reimbursements for “out-of-pocket” expenses of \$7.3 million and \$14.3 million, respectively. Included in revenue for the nine months ended June 30, 2017 is early termination revenue of \$4.7 million.

Excluding early termination per day revenue of \$1,292 in the first nine months of fiscal 2017, average rig revenue per day increased by \$460 to \$39,842 primarily due to a rig being on a standby rate during fiscal 2016 compared to a higher working rate in fiscal 2017. Low oil prices during 2016 and 2017 continue to have a negative effect on customer spending. During the first nine months of fiscal 2017, an average of 13.4 rigs worked compared to an average of 14.6 rigs in the first nine months of fiscal 2016.

In December 2016, we received early termination notification for five rigs located in our International Land segment. During the second quarter of fiscal 2017, the early termination notification was withdrawn. The customer has successfully assigned the contracts to other operators. Two of the rigs began drilling in the third quarter. The remaining three are expected to begin drilling in the fourth quarter of fiscal 2017.

**RESEARCH AND DEVELOPMENT**

For the nine months ended June 30, 2017 and 2016, we incurred \$8.6 million and \$7.9 million, respectively, of research and development expenses primarily related to ongoing development of a rotary steerable system.

#### OTHER

General and administrative expenses decreased \$1.7 million for the nine months ended June 30, 2017 compared to the nine months ended June 30, 2016. The decrease is primarily due to expense incurred in fiscal 2016 related to an employer match to our 401k/Employee Thrift Plan due to regulatory requirements that was not incurred in fiscal 2017.

We had an income tax benefit of \$50.5 million in the first nine months of fiscal 2017 compared to income tax expense of \$33.7 million in the first nine months of fiscal 2016 and the effective tax rate was 32.3 percent compared to 62.9 percent. The effective tax rate for the nine months ended June 30, 2016 was impacted by a December 2015 tax law change which resulted in a reduction of the fiscal 2015 Internal Revenue Code Section 199 deduction for domestic production activities. We expect the effective tax rate for fiscal 2017 to be between 32 and 33 percent.

Table of Contents

## LIQUIDITY AND CAPITAL RESOURCES

## Liquidity

Cash and cash equivalents decreased to \$572.8 million at June 30, 2017 from \$905.6 million at September 30, 2016. The following table provides a summary of cash flows:

	Nine Months Ended	
	June 30, 2017	2016
	(in thousands)	
Net cash provided (used) by:		
Operating activities	\$ 236,134	\$ 615,410
Investing activities	(348,578)	(211,022)
Financing activities	(220,330)	(226,740)
Increase (decrease) in cash and cash equivalents	\$ (332,774)	\$ 177,648

## Operating activities

Cash flows from operating activities were approximately \$236.1 million for the nine months ended June 30, 2017 compared to approximately \$615.4 million for the same period ended June 30, 2016. Multiple items contributed to the change, including a net loss in fiscal 2017 compared to net income in 2016, unfavorable changes in the deferred income tax liability, and less favorable net changes in current assets and current liabilities during the nine months ended June 30, 2017 compared to the same period in fiscal 2016.

## Investing activities

Capital expenditures during the nine months ended June 30, 2017 were \$300.3 million compared to \$219.5 million during the nine months ended June 30, 2016. While there has been a reduction in the number of new rigs built during the comparative periods, there has been significant investment in upgrading existing rigs to meet specification requirements in highest demand in the market. During the third quarter of fiscal 2017, we paid \$70.4 million, net of cash acquired, for MOTIVE Drilling Technology, Inc., a drilling technology company.

## Financing activities

Cash used in financing activities for the first nine months of fiscal 2017 was comprised primarily of dividends paid of \$229.1 million.

## Other Liquidity

Our operating cash requirements, interest payments, dividend payments, any stock repurchases and estimated capital expenditures, including our rig upgrade construction program, for fiscal 2017 are expected to be funded through cash and cash provided from operating activities. Given current market conditions, there can be no assurance that we will generate cash flows. Our indebtedness totaled \$492.6 million at June 30, 2017, however, the debt does not mature until March 19, 2025. For additional information regarding debt agreements, refer to Note 9 of the Consolidated Condensed Financial Statements.

## Backlog

Our contract drilling backlog, being the expected future revenue from both executed contracts with original terms in excess of one year and binding letters of intent for contracts of similar duration, as of June 30, 2017 and September 30, 2016 was \$1.4 billion and \$1.8 billion, respectively. The decrease in backlog at June 30, 2017 from September 30, 2016 is primarily due to the revenue earned since September 30, 2016. Approximately 84.0 percent of the June 30, 2017

Table of Contents

backlog is not reasonably expected to be filled in fiscal 2017. Included in backlog is early termination revenue expected to be recognized after the periods presented in which early termination notice was received prior to the end of the period.

The following table sets forth the total backlog by reportable segment as of June 30, 2017 and September 30, 2016, and the percentage of the June 30, 2017 backlog not reasonably expected to be filled in fiscal 2017:

Reportable Segment	June 30, 2017 (in billions)	September 30, 2016	Percentage Not Reasonably Expected to be Filled in Fiscal 2017	
U.S. Land	\$ 0.9	\$ 1.2	81.3	%
Offshore	0.1	0.1	76.1	%
International	0.4	0.5	90.8	%
	\$ 1.4	\$ 1.8		

Fixed-term contracts customarily provide for termination at the election of the customer, with an early termination payment to be paid to us if a contract is terminated prior to the expiration of the fixed term. However, in some limited circumstances, such as sustained unacceptable performance by us, no early termination payment would be paid to us. Also, our customers may be unable to perform their contractual obligations. Accordingly, the actual amount of revenue earned may vary from the backlog reported. See the risk factors under “Item 1A. Risk Factors” of our 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission, regarding fixed term contract risk.

### Capital Resources

During the nine months ended June 30, 2017, we completed one new FlexRig. The new FlexRig is working for an exploration and production company under a fixed-term contract, performing drilling services on a daywork contract basis. During fiscal 2017, we have been upgrading existing rigs to meet customer demands for additional capabilities.

Our capital spending estimate for fiscal 2017 is now estimated to be approximately \$400 million, and potentially higher depending on the timing of expenditures related to upgrading opportunities. This increase from our prior estimate of \$350 million is due to more rigs being upgraded than initially anticipated and higher levels of maintenance capital expenditures as a result of more rigs working than previously estimated. The revised estimate excludes the acquisition of MOTIVE Drilling Technologies, Inc. Capital expenditures were \$300.3 million and \$219.5 million for the first nine months of fiscal 2017 and 2016, respectively.

There were no other significant changes in our financial position since September 30, 2016.

#### MATERIAL COMMITMENTS

Material commitments as reported in our 2016 Annual Report on Form 10-K have not changed significantly at June 30, 2017.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies and estimates that are critical or the most important to understand our financial condition and results of operations, and that require management to make the most difficult judgments, are described in our 2016 Annual Report on Form 10-K. There have been no material changes in these critical accounting policies and estimates.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes virtually all existing revenue recognition guidance. Throughout 2016 and in early 2017, additional accounting guidance was issued to clarify the not yet effective revenue recognition guidance issued in May 2014. The ASU provides for full retrospective, modified retrospective, or use of the cumulative effect method during the period of adoption. During 2017, we established an implementation team and began a detailed analysis of our contracts in place during the

Table of Contents

retrospective period. We anticipate we will have two primary revenue streams consisting of lease and service components. The requirements in this ASU are effective during interim and annual periods beginning after December 15, 2017. We expect to adopt this new revenue guidance utilizing the modified retrospective method of adoption in the first quarter of fiscal 2019. As we are still evaluating certain aspects of our contract drilling revenue, we are unable to quantify the impact that the new revenue standard will have on our consolidated financial statements at this time.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The guidance provides principles and definitions for management that are intended to reduce diversity in the timing and content of disclosures provided in footnotes. Under the standard, management is required to evaluate for each annual and interim reporting period whether it is probable that the entity will not be able to meet its obligations as they become due within one year after the date that financial statements are issued (or are available to be issued, where applicable). The standard is effective for annual periods ending after December 15, 2016. We do not expect the adoption of this standard to have an impact on the consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This update simplifies the subsequent measurement of inventory. It replaces the current lower of cost or market test with the lower of cost or net realizable value test. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new standard should be applied prospectively and is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our financial consolidated statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The standard requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The provisions of ASU No. 2016-01 are effective for interim and annual periods starting after December 15, 2017. At adoption, a cumulative-effect adjustment to beginning retained earnings will be recorded. We will adopt this standard on October 1, 2018. Subsequent to adoption, changes in the fair value of our available-for-sale investments will be recognized in net income and the effect will be subject to stock market fluctuations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU No. 2016-02 will require organizations that lease assets — referred to as “lessees” — to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU No. 2016-02, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities are to be expanded to include qualitative along with specific quantitative information. For public entities, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU No. 2016-02 mandates a modified retrospective transition method. We expect to adopt this new lease guidance utilizing the modified retrospective



method of adoption in the first quarter of fiscal 2019 concurrently with ASU 2014-09. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU No. 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses. The ASU sets forth a “current expected credit loss” (CECL) model which requires companies to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on

Table of Contents

financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This standard is effective for interim and annual periods beginning after December 15, 2019. We are currently assessing the impact this standard will have on our consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The ASU is intended to reduce diversity in practice in presentation and classification of certain cash receipts and cash payments by providing guidance on eight specific cash flow issues. The ASU is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted, including adoption during an interim period. We are currently assessing the impact this standard will have on our consolidated statement of cash flows.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows - Restricted Cash. The ASU requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. We will adopt the guidance beginning October 1, 2018 applied retrospectively to all periods presented. The adoption is not expected to have a material impact on our consolidated financial position or cash flows.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 will change how employers that sponsor defined benefit pension and/or other post-retirement benefit plans present the net periodic benefit cost in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. This standard is effective for public business entities for annual periods or any interim periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted. We do not expect the new guidance to have a material impact on its financial condition or results of operation.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350). The objective of this ASU is to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The ASU is applicable for public entities for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The amendments should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We early adopted this guidance effective June 30, 2017 with no impact on our consolidated financial statements. Goodwill will be evaluated for impairment each year

in our fourth fiscal quarter.

### 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 which is incorporated herein by reference;
- “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 23, 2016;
- Note 9 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to interest rate risk which is incorporated herein by reference;
- Note 15 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to foreign currency exchange rate risk which is incorporated herein by reference; and

Table of Contents

- Risk Factors in Item 1A of Part II hereof with regard to commodity price risk and foreign currency exchange risk which is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was performed with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2017 at ensuring that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal controls over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Investigation by the U.S. Attorney. On November 8, 2013, the United States District Court for the Eastern District of Louisiana approved the previously disclosed October 30, 2013 plea agreement between our wholly owned subsidiary, Helmerich & Payne International Drilling Co. ("HPIDC"), and the United States Department of Justice, United States Attorney's Office for the Eastern District of Louisiana ("DOJ"). The court's approval of the plea agreement resolved the DOJ's investigation into certain choke manifold testing irregularities that occurred in 2010 at one of HPIDC's offshore platform rigs in the Gulf of Mexico. We also engaged in discussions with the Inspector General's office of the Department of the Interior ("DOI") regarding the same events that were the subject of the DOJ's investigation. Although we do not presently anticipate any further action by the DOI in this matter, we can provide no assurance as to the timing or eventual outcome of the DOI's consideration of the matter.

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

ITEM 1A. RISK FACTORS

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

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

In June 2014, oil prices reached over \$106 per barrel and then began to decline significantly during the second half of 2014 and continued to decline in 2015 closing below \$40 per barrel by December 31, 2015. During early 2016, oil prices dropped below \$30 per barrel and many of our customers announced significant reductions in their 2016 capital spending budgets. The severe decline in oil prices led to a significant decline in our active rig fleet. For example, at March 31, 2015, 179 out of an available 332 land rigs were contracted in the U.S. Land segment. In contrast, at June 30, 2016, 89 out of an available 348 land rigs were contracted in the U.S. Land segment. However, during the second half of 2016, oil prices increased (but remained below \$55 per barrel), the U.S. land active rig count increased and our customers began increasing their drilling budgets. Due to the gradual rebound in oil prices in calendar 2016 as noted

Table of Contents

above, we had 190 out of an available 350 land rigs contracted in the U.S. Land segment at June 30, 2017. At July 27, 2017, 189 rigs were contracted in the U.S. Land segment. In the event oil prices drop again and remain depressed for a sustained period, our U.S. Land, International Land and Offshore segments may again experience significant declines in both drilling activity and spot dayrate pricing which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

We are subject to the political, economic and social instability risks and local laws associated with doing business in certain foreign countries.

We currently have operations in South America and the Middle East. In the future, we may further expand the geographic reach of our operations. As a result, we are exposed to certain political, economic and other uncertainties not encountered in U.S. operations, including increased risks of social unrest, strikes, terrorism, war, kidnapping of

employees, nationalization, forced negotiation or modification of contracts, difficulty resolving disputes and enforcing contract provisions, expropriation of equipment as well as expropriation of oil and gas exploration and drilling rights, taxation policies, foreign exchange restrictions and restrictions on repatriation of income and capital, currency rate fluctuations, increased governmental ownership and regulation of the economy and industry in the markets in which we operate, economic and financial instability of national oil companies, and restrictive governmental regulation, bureaucratic delays and general hazards associated with foreign sovereignty over certain areas in which operations are conducted.

South American countries, in particular, have historically experienced uneven periods of economic growth, as well as recession, periods of high inflation and general economic and political instability. From time to time these risks have impacted our business. For example, on June 30, 2010, the Venezuelan government expropriated 11 rigs and associated real and personal property owned by our Venezuelan subsidiary. Prior thereto, we also experienced currency devaluation losses in Venezuela and difficulty repatriating U.S. dollars to the United States. Today, our contracts for work in foreign countries generally provide for payment in U.S. dollars. However, in Argentina we are paid in Argentine pesos. The

Table of Contents

Argentine branch of one of our second-tier subsidiaries then remits U.S. dollars to its U.S. parent by converting the Argentine pesos into U.S. dollars through the Argentine Foreign Exchange Market and repatriating the U.S. dollars.

Estimates from published sources indicate that Argentina is a highly inflationary country, which is defined as cumulative inflation rates exceeding 100 percent in the most recent three-year period based on inflation data published by the respective governments. Regardless, all of our foreign operations use the U.S. dollar as the functional currency and local currency monetary assets and liabilities are remeasured into U.S. dollars with gains and losses resulting from foreign currency transactions included in current results of operations.

In December 2015, the Argentine peso experienced a sharp devaluation resulting in an aggregate foreign currency loss of \$9.4 million for the nine months ended June 30, 2016. Subsequent to the sharp devaluation, the Argentine peso significantly stabilized and the Argentine Foreign Exchange Market controls now places fewer restrictions on repatriating U.S. dollars. For the nine months ended June 30, 2017, we experienced aggregate foreign currency losses of \$3.3 million. However, in the future, other contracts or applicable law may require payments to be made in foreign currencies. As such, there can be no assurance that we will not experience in Argentina or elsewhere a devaluation of foreign currency, foreign exchange restrictions or other difficulties repatriating U.S. dollars even if we are able to negotiate contract provisions designed to mitigate such risks. In the event of future payments in foreign currencies and an inability to timely exchange foreign currencies for U.S. dollars, we may incur currency devaluation losses which could have a material adverse impact on our business, financial condition and results of operations.

Additionally, 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 we find acceptable.

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, 2017, approximately 12.4 percent of our consolidated operating revenues were generated from the international contract drilling business. During the nine months ended June 30, 2017, approximately 90.0 percent of the international operating revenues were from operations in South America. Substantially all of the South American operating revenues were from Argentina and Colombia. The future occurrence of one or more international events arising from the types of risks described above could have a material adverse impact on our business, financial condition and results of operation.

Other risk factors



Edgar Filing: Helmerich & Payne, Inc. - Form 10-Q

Reference is made to the risk factors pertaining to the Company's securities portfolio and current backlog of contract drilling revenue in Item 1A of Part 1 of the Company's Form 10-K for the year ended September 30, 2016. In order to update these risk factors for developments that have occurred during the first nine months of fiscal 2017, the risk factors are hereby amended and updated by reference to, and incorporation herein of Note 5 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof (regarding our securities portfolio) and Liquidity and Capital Resources — Backlog contained in Item 2 of Part I hereof.

Except as discussed above for the nine months ended June 30, 2017, there have been no material changes to the risk factors disclosed in Item 1A of Part 1 in our Form 10-K.

Table of Contents

## ITEM 6. EXHIBITS

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

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated May 22, 2017 between Helmerich & Payne, Inc., MOTIVE Drilling Technologies, Inc., Spring Merger Sub, Inc., and Shareholder Representative Services LLC.
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, 2017, filed on August 4, 2017, formatted in Extensive Business Reporting Language (XBRL): (i) the Consolidated Condensed Statements of Operations, (ii) the Consolidated Condensed Statements of Comprehensive Income (Loss), (iii) the Consolidated Condensed Balance Sheets, (iv) the Consolidated Condensed Statements of Shareholders' Equity, (v) the Consolidated Condensed Statements of Cash Flows and (vi) the Notes to Consolidated Condensed Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HELMERICH & PAYNE, INC.  
(Registrant)

Date: August 4, 2017 By: /S/ JOHN W. LINDSAY  
John W. Lindsay, Chief Executive Officer

Date: August 4, 2017 By: /S/ JUAN PABLO TARDIO  
Juan Pablo Tardio, Chief Financial Officer  
(Principal Financial Officer)

Table of Contents

## EXHIBIT INDEX

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

Exhibit Number	Description
2.1	<u>Agreement and Plan of Merger dated May 22, 2017 between Helmerich &amp; Payne, Inc., MOTIVE Drilling Technologies, Inc., Spring Merger Sub, Inc., and Shareholder Representative Services LLC.</u>
31.1	<u>Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32	<u>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.</u>
101	Financial statements from the quarterly report on Form 10-Q of Helmerich & Payne, Inc. for the quarter ended June 30, 2017, filed on August 4, 2017, formatted in Extensive Business Reporting Language (XBRL): (i) the Consolidated Condensed Statements of Operations, (ii) the Consolidated Condensed Statements of Comprehensive Income (Loss), (iii) the Consolidated Condensed Balance Sheets, (iv) the Consolidated Condensed Statements of Shareholders' Equity, (v) the Consolidated Condensed Statements of Cash Flows and (vi) the Notes to Consolidated Condensed Financial Statements.