

# HELMERICH & PAYNE, INC.

## FORM 10-Q (Quarterly Report)

Filed 08/13/01 for the Period Ending 06/30/01

Address	1437 S. BOULDER AVE. SUITE 1400 TULSA, OK, 74119
Telephone	918-742-5531
CIK	0000046765
Symbol	HP
SIC Code	1381 - Drilling Oil and Gas Wells
Industry	Oil & Gas Drilling
Sector	Energy
Fiscal Year	09/30

# HELMERICH & PAYNE INC

## FORM 10-Q (Quarterly Report)

Filed 8/13/2001 For Period Ending 6/30/2001

Address	UTICA AT 21ST ST TULSA, Oklahoma 74114
Telephone	918-742-5531
CIK	0000046765
Industry	Oil Well Services & Equipment
Sector	Energy
Fiscal Year	09/30

# FORM 10-Q

## SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 30549

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

For quarterly period ended: JUNE 30, 2001

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number: 1-4221*

### HELMERICH & PAYNE, INC.

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

73-0679879

(I.R.S. Employer I.D. Number)

**UTICA AT TWENTY-FIRST STREET, TULSA, OKLAHOMA 74114**

(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code: (918) 742-5531

Former name, former address and former fiscal year,  
if changed since last report:

NONE

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

CLASS  
Common Stock, \$0.10 par value

OUTSTANDING AT JUNE 30, 2001  
50,563,599

TOTAL NUMBER OF PAGES 20

# HELMERICH & PAYNE, INC.

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**PART I. FINANCIAL INFORMATION**

**HELMERICH & PAYNE, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
(in thousands)

	(Unaudited) June 30, 2001	September 30, 2000
	-----	-----
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 167,874	\$ 108,087
Accounts receivable, net	134,742	106,630
Inventories	30,600	25,598
Prepaid expenses and other	15,236	24,829
	-----	-----
Total Current Assets	348,452	265,144
	-----	-----
Investments	234,708	304,326
Property, plant and equipment, net	761,838	673,605
Other assets	14,772	16,417
	-----	-----
Total Assets	\$ 1,359,770	\$ 1,259,492
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 47,711	\$ 32,279
Accrued liabilities	62,904	46,615
	-----	-----
Total Current Liabilities	110,615	78,894
	-----	-----
Noncurrent Liabilities		
Long-term notes payable	50,000	50,000
Deferred income taxes	134,869	156,650
Other	19,670	18,245
	-----	-----
Total Noncurrent Liabilities	204,539	224,895
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, par value, \$.10 per share	5,353	5,353
Preferred stock, no shares issued	--	--
Additional paid-in capital	80,225	66,090
Retained earnings	918,559	813,885
Unearned compensation	(2,178)	(3,277)
Accumulated other comprehensive income	71,271	106,064
	-----	-----
	1,073,230	988,115
Less treasury stock, at cost	28,614	32,412
	-----	-----
Total Shareholders' Equity	1,044,616	955,703
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 1,359,770	\$ 1,259,492
	=====	=====

The accompanying notes are an integral part of these statements.

**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**  
(Unaudited)

(in thousands except per share data)

	Quarter Ended		Nine Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
REVENUES:				
Sales and other operating revenues	\$ 212,573	\$ 149,760	\$ 621,138	\$ 425,195
Income from investments	4,649	2,208	10,203	28,202
	-----	-----	-----	-----
	217,222	151,968	631,341	453,397
	-----	-----	-----	-----
COST AND EXPENSES:				
Operating costs	111,120	77,124	312,242	229,536
Depreciation, depletion and amortization	21,341	26,712	62,103	80,552
Dry holes and abandonments	6,878	7,811	25,626	14,638
Taxes, other than income taxes	10,276	7,716	31,210	21,958
General and administrative	3,449	2,466	11,662	8,621
Interest	(1,626)	767	(951)	2,389
	-----	-----	-----	-----
	151,438	122,596	441,892	357,694
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES AND EQUITY IN INCOME OF AFFILIATE	65,784	29,372	189,449	95,703
INCOME TAX EXPENSE	25,679	11,648	74,832	39,790
EQUITY IN INCOME OF AFFILIATE, net of income taxes	332	833	1,409	2,378
	-----	-----	-----	-----
NET INCOME	\$ 40,437	\$ 18,557	\$ 116,026	\$ 58,291
	=====	=====	=====	=====
EARNINGS PER COMMON SHARE:				
Basic	\$ 0.80	\$ 0.37	\$ 2.31	\$ 1.18
Diluted	\$ 0.79	\$ 0.37	\$ 2.28	\$ 1.17
CASH DIVIDENDS (Note 3)	\$ 0.075	\$ 0.075	\$ 0.225	\$ 0.215
AVERAGE COMMON SHARES OUTSTANDING:				
Basic	50,467	49,571	50,159	49,480
Diluted	51,256	50,227	50,941	49,940

The accompanying notes are an integral part of these statements.

**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
(Unaudited)

(in thousands)

	Nine Months Ended	
	06/30/01	06/30/00
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 116,026	\$ 58,291
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	62,103	80,552
Dry holes and abandonments	25,626	14,638
Equity in income of affiliate before income taxes	(2,898)	(3,836)
Amortization of deferred compensation	1,112	1,148
Gain on sale of securities and non-monetary investment income	(2,634)	(22,804)
Gain on sale of property, plant & equipment	(3,759)	(1,368)
Other, net	22	588
Change in assets and liabilities-		
Accounts receivable	(28,112)	(92)
Inventories	(5,274)	181
Prepaid expenses and other	11,200	(3,318)
Account payable	15,432	1,461
Accrued liabilities	22,451	(2,645)
Deferred income taxes	(1,417)	17,243
Other noncurrent liabilities	1,425	(75)
	-----	-----
	95,277	81,673
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	211,303	139,964
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures, including dry hole costs	(186,664)	(76,676)
Proceeds from sales of property, plant and equipment	10,476	3,639
Proceeds from sale of investments	24,438	12,569
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(151,750)	(60,468)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments made on notes payable	--	(5,000)
Dividends paid	(11,366)	(10,699)
Purchases of stock for treasury	(1,921)	(450)
Proceeds from exercise of stock options	13,521	3,594
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	234	(12,555)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	59,787	66,941
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	108,087	21,758
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 167,874	\$ 88,699
	=====	=====

**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**  
**CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY**  
(in thousands - except per share data)

	Common Stock		Additional	Unearned	Retained	Treasury Stock		Accumulated	
	Shares	Amount	Paid-In	Compensation	Earnings	Shares	Amount	Other	Total
	-----	-----	-----	-----	-----	-----	-----	Comprehensive	-----
			Capital					Income	
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance, September 30, 2000	53,529	\$5,353	\$ 66,090	\$ (3,277)	\$813,885	3,548	\$(32,412)	\$106,064	\$ 955,703
Comprehensive Income:									
Net Income					116,026				116,026
Other comprehensive income, Unrealized losses on available-for-sale securities, net								(34,771)	(34,771)
Derivatives instruments losses, net								(22)	(22)
Total other comprehensive income								(34,793)	(34,793)
Comprehensive income									81,233
Cash dividends (\$0.225 per share)					(11,365)				(11,365)
Exercise of stock options			7,974			(643)	5,719		13,693
Tax benefit of stock-based awards			6,161						6,161
Purchase of stock for treasury						60	(1,921)		(1,921)
Amortization of deferred compensation				1,099	13				1,112
Balance, June 30, 2001	53,529	\$5,353	\$ 80,225	\$ (2,178)	\$918,559	2,965	\$(28,614)	\$ 71,271	\$1,044,616
	=====	=====	=====	=====	=====	=====	=====	=====	=====



**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

1. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which consists only of those of a normal recurring nature, necessary to present fairly the results of the periods presented. The results of operations for the three and nine months ended June 30, 2001, and June 30, 2000, are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 2000 Annual Report on Form 10-K and the Company's 2001 First and Second Quarter Reports on Form 10-Q.

2. Effective October 1, 2000, the Company adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities", as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS 133, as amended, requires that all derivatives be recorded on the balance sheet at fair value. Upon adoption at October 1, 2000, the effect of complying with SFAS 133, as amended, resulted in a cumulative transition adjustment to accumulated other comprehensive income of approximately \$1.4 million.

3. The \$.075 cash dividend declared in March, 2001, was paid June 1, 2001. On June 6, 2001, a cash dividend of \$.075 per share was declared for shareholders of record on August 15, 2001, payable September 4, 2001.

4. Inventories consist of materials and supplies.

5. Income from investments includes \$1,423,000 and \$1,578,000 after-tax gains from sales of available-for-sale securities during the third quarter and first nine months of fiscal 2001, respectively. After-tax gains from security sales were \$ -0- and \$7,750,000 for the same periods in fiscal 2000.

Also included in income from investments for the first nine months of fiscal 2000 were gains related to a non-monetary dividend (\$9,509,000) and non-monetary gain (\$719,000) on the conversion of shares of common stock of a Company investee pursuant to that investee being acquired. Net income from these two transactions was approximately \$6.3 million (\$0.13 per diluted share).

6. The following is a summary of available-for-sale securities, which excludes those accounted for under the equity method of accounting. The Company's investment in securities accounted for under the equity method is \$54,461,000.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Est. Fair Value
	(in thousands)			
Equity Securities 06/30/01	\$ 65,257	\$ 115,889	\$ 899	\$ 180,247
Equity Securities 09/30/00	\$ 86,901	\$ 173,137	\$ 2,065	\$ 257,973

**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
(Continued)

7. Comprehensive Income -

Comprehensive income, net of related tax, is as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2000	2001	2000
Net Income	\$ 40,437	\$ 18,557	\$ 116,026	\$ 58,291
Other comprehensive income:				
Net unrealized gain(loss) on securities	939	(9,936)	(34,771)	15,011
Net unrealized gain(loss) on derivative instruments	6	--	(22)	--
Other comprehensive income	945	(9,936)	(34,793)	15,011
Comprehensive income	\$ 41,382	\$ 8,621	\$ 81,233	\$ 73,302

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

	06/30/01	09/30/00
Unrealized gains on securities, net	\$ 71,293	\$ 106,064
Unrealized loss on derivative instruments	(22)	--
Accumulated other comprehensive income	\$ 71,271	\$ 106,064

8. At June 30, 2001, the Company had committed bank lines of credit totaling \$85 million; \$35 million may be borrowed through May 2002, and \$50 million may be borrowed through October 2003. The Company had \$50 million in variable-rate borrowings under its committed bank line of credit that expires in October 2003. The Company also had outstanding letters of credit totaling \$8.2 million against these lines at June 30, 2001. The average rate on the borrowings at June 30, 2001 was 4.26%. However, concurrent with a \$50 million borrowing under one of its committed facilities, the Company entered into a 5-year, \$50 million interest rate swap. The swap effectively fixed the interest rate on this facility at 5.38% for the entire term of the note.

**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
(Continued)

9. Earnings per Share -

Basic earnings per share is based on the weighted-average number of common shares outstanding during the period. Diluted earnings per share include the dilutive effect of stock options and restricted stock.

A reconciliation of the weighted-average common shares outstanding on a basic and diluted basis is as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
Basic weighted-average shares	50,467	49,571	50,159	49,480
Effect of dilutive shares:				
Stock options	735	644	743	452
Restricted stock	54	12	39	8
	789	656	782	460
Diluted weighted-average shares	51,256	50,227	50,941	49,940

10. Change in Depreciable Lives -

As a result of an economic evaluation of the useful lives of its drilling equipment, the Company has extended the depreciable life of its rig equipment from 10 to 15 years. This change will provide a better matching of revenues and depreciation expense over the useful life of the equipment. This change, effective October 1, 2000, reduced depreciation expense during the three months and nine months ended June 30, 2001, by approximately \$7.5 million and \$22.5 million, respectively.

11. Impairment -

Included in depreciation, depletion and amortization for the three months and nine months ended June 30, 2001, were impairment charges of \$0.6 million and \$4.5 million, respectively, for proved Exploration & Production properties. After-tax, the impairment charges reduced the third quarter and nine months net income by approximately \$0.4 million and \$2.8 million (\$0.05 per share), respectively.

12. Litigation Settlement -

As previously discussed in the Company's filings on Forms 8-K dated March 16, 2001, and June 13, 2001, the Company is a defendant in Verdin v. R&B Falcon Drilling USA, Inc., et al., a civil action in the United States District Court, Galveston Texas. The lawsuit alleges, among other things, that the Company and many other defendant companies whose collective operations represent a substantial majority of the U.S. offshore drilling industry, conspired to fix wages and benefits paid to drilling employees. Plaintiff contends that this alleged conduct violates federal and state antitrust laws. Plaintiff sought treble damages, attorneys' fees and costs on behalf of himself and an alleged class of offshore workers.

**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
(Continued)

In May 2001, the Company reached an agreement in principle with Plaintiff's counsel to settle all claims pending court approval of the settlement. Court approval of the settlement is expected in the fourth quarter of 2001; however, the Company can give no assurance that this approval will be obtained. In the third quarter of fiscal 2001, the Company accrued \$3.25 million to contract drilling expense based on the pending settlement. The Company does not believe that the settlement will have a material adverse affect on its business or financial position.

13. Kansas Ad Valorem Settlement -

In fiscal 1997, the Company was assessed with approximately \$6.7 million of Kansas ad valorem taxes which had been reimbursed to the Company for the period from October 1983 through June 1988 by interstate pipelines transporting natural gas to end users. In fiscal 1997, based on the assessment, natural gas revenues were reduced by \$2.7 million and interest expense was increased by \$4.0 million. In March 1998, approximately \$6.1 million of the unpaid assessment was placed in an escrow account pending resolution of this matter. Since March 1998, the escrow account and the related liability continued to accrue interest income and interest expense of approximately \$1.0 million.

The Federal Energy Regulatory Commission approved settlements between the Company and three of the pipelines. The last of these settlements was final in May 2001. The Company paid approximately \$3.9 million out of its escrow account for the settlement of all three pipeline proceedings. The three settlements were approximately \$3.1 million less than the amount the Company accrued for this liability. The impact of these settlements in the third quarter of fiscal 2001 was to increase natural gas revenues by approximately \$1.1 million, reduce interest expense by approximately \$2.0 million and reduce the liability by \$3.1 million. At June 30, 2001, the Company continues to escrow approximately \$300,000 to cover reimbursement liability in the remaining two pipeline proceedings. The Company believes this amount will be adequate to cover future reimbursement liability.

14. Stock Option Plan -

In March 2001, the Company adopted the Helmerich & Payne, Inc. 2000 Stock Incentive Plan (the "Stock Incentive Plan"). Options will not be awarded nor restricted stock granted after December 6, 2000, under any of the previously adopted plans.

The Stock Incentive Plan authorizes the Company to grant non-qualified stock options, incentive stock options and restricted stock awards to key employees and non-employee Directors subject to conditions set forth in the Stock Incentive Plan. The Company has reserved 3,000,000 shares of common stock for grant to participants under the Stock Incentive Plan. Subject to the adjustment provisions of the Stock Incentive Plan, in no event shall more than 450,000 shares of common stock be awarded to participants as restricted stock awards.

**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
(Continued)

15. Interest Rate Risk Management -

The Company uses derivatives as part of an overall operating strategy to moderate certain financial market risks and is exposed to interest rate risk from long-term debt. To manage this risk, the Company has entered into an interest rate swap to exchange floating rate for fixed rate interest payments over the remaining life of the debt. As of June 30, 2001, the Company had an interest rate swap outstanding with a notional principal amount of \$50 million. (See Note 8)

The Company's accounting policy for these instruments is based on its designation of such instruments as hedging transactions. An instrument is designated as a hedge based in part on its effectiveness in risk reduction and one-to-one matching of derivative instruments to underlying transactions. The Company records all derivatives on the balance sheet at fair value.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure of variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income in stockholders' equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The change in value of the derivative instrument in excess of the cumulative change in the present value of the future cash flows of the risk being hedged, if any, is recognized in the current earnings during the period of change.

The Company's interest rate swap has been designated as a cash flow hedge and is expected to be 100% effective in hedging the exposure of variability in the future interest payments attributable to the debt because the terms of the interest swap correlate with the terms of the debt.

16. Segment Information -

The Company evaluates performance of its segments based upon operating profit or loss from operations before income taxes, which includes revenues from external and internal customers; operating costs; depreciation, depletion and amortization; dry holes and abandonments and taxes other than income taxes. Intersegment sales are accounted for in the same manner as sales to unaffiliated customers. Other includes investments in available-for-sale securities, equity owned investments, as well as corporate operations.

**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
(Continued)

Summarized financial information of the Company's reportable segments for the nine months ended June 30, 2001, and 2000, is shown in the following table:

(in thousands)	External Sales	Inter- Segment	Total Sales	Operating Profit
-----	-----	-----	-----	-----
<b>JUNE 30, 2001</b>				
Contract Drilling				
Domestic	\$ 228,769	\$ 2,331	\$ 231,100	\$ 67,995
International	114,346	--	114,346	19,311
	-----	-----	-----	-----
	343,115	2,331	345,446	87,306
	-----	-----	-----	-----
Oil & Gas Operations				
Exploration & Prod.	184,900	--	184,900	95,047
Natural Gas Marketing	83,661	--	83,661	4,817
	-----	-----	-----	-----
	268,561	--	268,561	99,864
	-----	-----	-----	-----
Real Estate	8,826	1,159	9,985	5,312
Other	10,839	--	10,839	--
Eliminations	--	(3,490)	(3,490)	--
	-----	-----	-----	-----
Total	\$ 631,341	\$ --	\$ 631,341	\$ 192,482
	=====	=====	=====	=====
(in thousands)	External Sales	Inter- Segment	Total Sales	Operating Profit
-----	-----	-----	-----	-----
<b>JUNE 30, 2000</b>				
Contract Drilling				
Domestic	\$ 156,686	\$ 2,213	\$ 158,899	\$ 24,719
International	99,345	--	99,345	5,632
	-----	-----	-----	-----
	256,031	2,213	258,244	30,351
	-----	-----	-----	-----
Oil & Gas Operations				
Exploration & Prod.	105,716	--	105,716	42,054
Natural Gas Marketing	56,159	--	56,159	3,987
	-----	-----	-----	-----
	161,875	--	161,875	46,041
	-----	-----	-----	-----
Real Estate	6,684	1,157	7,841	4,017
Other	28,807	--	28,807	--
Eliminations	--	(3,370)	(3,370)	--
	-----	-----	-----	-----
Total	\$ 453,397	\$ --	\$ 453,397	\$ 80,409
	=====	=====	=====	=====

**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
(Continued)

Summarized financial information of the Company's reportable segments for the quarters ended June 30, 2001, and 2000, is shown in the following table:

(in thousands)	External Sales	Inter- Segment	Total Sales	Operating Profit
-----				
JUNE 30, 2001				
Contract Drilling				
Domestic	\$ 93,316	\$ 719	\$ 94,035	\$ 30,305
International	40,527	--	40,527	7,958
	-----	-----	-----	-----
	133,843	719	134,562	38,263
	-----	-----	-----	-----
Oil & Gas Operations				
Exploration & Prod.	52,337	--	52,337	23,932
Natural Gas Marketing	23,508	--	23,508	151
	-----	-----	-----	-----
	75,845	--	75,845	24,083
	-----	-----	-----	-----
Real Estate	2,250	383	2,633	1,008
Other	5,284	--	5,284	--
Eliminations	--	(1,102)	(1,102)	--
	-----	-----	-----	-----
Total	\$ 217,222	\$ --	\$ 217,222	\$ 63,354
	=====	=====	=====	=====
(in thousands)	External Sales	Inter- Segment	Total Sales	Operating Profit
-----				
JUNE 30, 2000				
Contract Drilling				
Domestic	\$ 53,050	\$ 1,012	\$ 54,062	\$ 10,047
International	32,977	--	32,977	1,819
	-----	-----	-----	-----
	86,027	1,012	87,039	11,866
	-----	-----	-----	-----
Oil & Gas Operations				
Exploration & Prod.	41,458	--	41,458	16,915
Natural Gas Marketing	20,010	--	20,010	1,203
	-----	-----	-----	-----
	61,468	--	61,468	18,118
	-----	-----	-----	-----
Real Estate	2,204	382	2,586	1,289
Other	2,269	--	2,269	--
Eliminations	--	(1,394)	(1,394)	--
	-----	-----	-----	-----
Total	\$ 151,968	\$ --	\$ 151,968	\$ 31,273
	=====	=====	=====	=====

**PART I. FINANCIAL INFORMATION**  
**HELMERICH & PAYNE, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
(Continued)

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

(in thousands) -----	Quarter Ended June 30,		Nine Months Ended June 30,	
	2001	2000	2001	2000
-----	-----	-----	-----	-----
Segment operating profit	\$ 63,354	\$ 31,273	\$ 192,482	\$ 80,409
Unallocated amounts:				
Income from investments	4,649	2,208	10,203	28,202
General corporate expense	(3,449)	(2,466)	(11,662)	(8,621)
Interest expense	1,626	(767)	951	(2,389)
Corporate depreciation	(550)	(430)	(1,526)	(1,234)
Other corporate expense	154	(446)	(999)	(664)
	-----	-----	-----	-----
Total unallocated amounts	2,430	(1,901)	(3,033)	15,294
	-----	-----	-----	-----
Income before income taxes and equity in income of affiliate	\$ 65,784	\$ 29,372	\$ 189,449	\$ 95,703
	=====	=====	=====	=====

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

(in thousands) -----	Quarter Ended June 30,		Nine Months Ended June 30,	
	2001	2000	2001	2000
-----	-----	-----	-----	-----
Revenues				
United States	\$ 176,695	\$ 118,991	\$ 516,995	\$ 354,052
Venezuela	11,987	8,098	29,818	25,980
Colombia	6,089	9,736	20,155	33,184
Other Foreign	22,451	15,143	64,373	40,181
	-----	-----	-----	-----
Total	\$ 217,222	\$ 151,968	\$ 631,341	\$ 453,397
	=====	=====	=====	=====



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**RISK FACTORS AND FORWARD-LOOKING STATEMENTS**

The following discussion should be read in conjunction with the consolidated financial statements, notes and management's narrative analysis contained in the Company's 2000 Annual Report on Form 10-K and the condensed consolidated financial statements included in the Company's 2001 First and Second Quarter Reports on Form 10-Q and related notes included elsewhere herein. The Company's future operating results may be affected by various trends and factors, which are beyond the Company's control. These include, among other factors, fluctuations in natural gas and crude oil prices, expiration or termination of drilling contracts, currency exchange losses, changes in general economic conditions, rapid or unexpected changes in technologies and uncertain business conditions that affect the Company's businesses. Accordingly, past results and trends should not be used by investors to anticipate future results or trends.

With the exception of historical information, the matters discussed in Management's Discussion & Analysis of Results of Operations and Financial Condition includes forward-looking statements. These forward-looking statements are based on various assumptions. The Company cautions that, while it believes such assumptions to be reasonable and makes them in good faith, assumed facts almost always vary from actual results. The differences between assumed facts and actual results can be material. The Company is 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, or on behalf of, the Company. 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, or on behalf of, the Company.

**RESULTS OF OPERATIONS**

**THIRD QUARTER 2001 VS THIRD QUARTER 2000**

The Company reported net income of \$40,437,000 (\$0.79 per share) from revenues of \$217,222,000 for the third quarter ended June 30, 2001, compared with net income of \$18,557,000 (\$0.37 per share) from revenues of \$151,968,000 for the third quarter of the prior fiscal year. Net income in the third quarter of fiscal 2001 included \$1,423,000 (\$0.03 per share) from the sale of investment securities. There were no sales of investment securities in the third quarter of fiscal 2000.

**EXPLORATION AND PRODUCTION**

Exploration and Production reported operating profit of \$23.9 million for the third quarter of fiscal 2001 compared with \$16.9 million for the same period of fiscal 2000. Oil & gas revenues increased to \$52.3 million compared with \$41.5 million in 2000.

Natural gas revenues increased to \$46.5 million from \$34.5 million, or 35 percent, due primarily to a 46 percent increase in the average gas price. Included in natural gas revenues for the third quarter of 2001 was \$1.0 million related to a Kansas ad valorem tax settlement (see note 13). Natural gas volumes were down 6 percent. Oil revenues decreased to \$5.4 million from \$6.5 million as the result of lower oil prices and volumes. Natural gas prices

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averaged \$4.33 per mcf and \$2.97 per mcf for the third quarter of fiscal 2001 and 2000, respectively. Natural gas volumes averaged 119.5 mmcf/d and 127.6 mmcf/d, respectively. Crude oil prices averaged \$25.83 per bbl and \$27.98 per bbl for the third quarter of fiscal 2001 and 2000, respectively. Crude oil volumes averaged 2,255 bbls/d and 2,439 bbls/d, respectively.

Exploration expenses were approximately \$10.0 million in the third quarter of both fiscal 2001 and fiscal 2000. Dry hole costs were \$2.6 million for the quarter compared with \$4.6 in 2000, geophysical expense was \$2.7 million compared with \$1.6 million and impairment of undeveloped leases was \$4.2 million compared with \$3.0 million in 2000. Operating expenses increased \$2.7 million as production taxes and ad valorem taxes increased with higher natural gas revenues.

The Company participated in an additional 33 wells during the third quarter, of which 28 were producing, waiting on pipeline connections or completing. Of the 33 wells drilled, 13 were wildcat wells, of which 8 were successful and 5 were dry holes. For the first nine months of fiscal 2001, the Company participated in 98 wells, of which 78 were completed or are completing, and 20 were dry holes. The Company expects to participate in 135 wells for the year, of which 60 are expected to be drilled to develop proved reserves. The Company plans to drill a number of promising wildcat wells during the fourth quarter.

### **DOMESTIC DRILLING**

Domestic contract drilling revenues for the third quarter of 2001 and 2000 were \$93.3 million and \$53.0 million, respectively. Operating profit for the third quarter of fiscal 2001 was \$30.3 million, compared with \$10.0 million in last year's third quarter. The significant increase in operating profit is primarily the result of improved performance in the Company's land operations. Dayrates averaged approximately \$15,000 per day in the current quarter, compared to \$8,500 per day in the third quarter of fiscal 2000. Land rig utilization was 98 percent and 89 percent for the third quarter of 2001 and 2000, respectively. Operating profit from offshore operations improved (20 percent) in the current quarter compared to the third quarter of fiscal 2000, as rig utilization was 100 percent and 90 percent for the third quarter of 2001 and 2000, respectively. Also impacting the operating profit increase for domestic contract drilling was a reduction in depreciation expense of approximately \$3.8 million due to the change in the Company's estimated useful life for drilling equipment, effective October 1, 2000 (see note 10). Contract drilling expense in the third quarter of fiscal 2001 included \$3.25 million related to a litigation settlement (see note 12).

On March 15, 2001, the Company announced that it would construct 15 new FlexRigs(TM), a highly mobile 8,000-18,000' land rig. The Company is increasing the March 15th commitment from 15 to 25 new FlexRigs. The Company expects all 25 rigs will be delivered by March 2003 at an estimated cost of \$10 million each. The Company also intends to complete its current 12 FlexRig construction program by January 2002. Eight of the current order of 12 FlexRigs are committed, including seven rigs with two-year or three-year firm term contracts. The Company also announced in the third quarter that it will spend approximately \$45 million to purchase 30 new Varco top drives to upgrade a significant portion of its existing U.S. land rig fleet in fiscal years 2002 and 2003. In July 2001, the Company also announced that it received commitments for two new self-moving platform rigs. Shell Exploration and Production Co. awarded

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a contract to build and operate new rig 205 for use on both fixed and tension leg platforms in the Gulf of Mexico. In addition, BP signed a letter of intent to contract with the Company to build and operate a new rig 206 for use on its Horn Mountain Spar in the Gulf of Mexico. The cost of the two rigs will be approximately \$50 million, and the rigs should commence operations in the spring of 2002.

**INTERNATIONAL DRILLING**

International Drilling's operating profit increased to \$8.0 million from \$1.8 million. Revenues increased to \$40.5 million from \$33.0 million. The operating profit increase is due primarily to an increase in average dayrates and profitability in Ecuador, Colombia and Venezuela. Also impacting the current quarter operating profit were several one-time contract settlement items that had a positive impact of approximately \$2.0 million. Utilization for the Company's international rigs was 60 percent and 47 percent for the third quarter of fiscal 2001 and 2000, respectively. The improvement in the third quarter utilization resulted from the reduction in the number of rigs available in the international fleet, due to the transfer of five rigs to the U.S. for refurbishment and modification. Also impacting the operating profit increase for international drilling was a reduction in depreciation expense of approximately \$3.7 million due to the change in the Company's estimated useful life for drilling equipment (see note 10).

**OTHER**

Other revenues increased approximately \$3.0 million over last year, including a \$2.4 million increase in gains from the sale of available-for-sale securities. Interest expense was a credit of \$1.6 million for the current quarter, compared with an expense of \$.8 million in the third quarter of last year. The decrease in interest expense was primarily the result of a settlement of a 1997 assessment by the Federal Energy Regulatory Commission relating to Kansas ad valorem taxes. The settlement resulted in a credit to interest expense of approximately \$2.0 million in the third quarter of fiscal 2001 (see note 13). Corporate general and administrative costs increased to \$3.4 million from \$2.5 million, due primarily to increased professional services relating to possible merger activity with our Exploration and Production Division, pension expense and administrative labor and benefits.

**NINE MONTHS ENDED JUNE 30, 2001 VS NINE MONTHS ENDED JUNE 30, 2000**

The Company reported net income of \$116,026,000 (\$2.28 per share) from revenues of \$631,341,000 for the nine months ended June 30, 2001, compared with net income of \$58,291,000 (\$1.17 per share) from revenues of \$453,397,000 for the first nine months of the prior fiscal year. Net income in the first nine months of fiscal 2001 included \$1,578,000 (\$0.03 per share) from the sale of investment securities compared with \$7,750,000 (\$0.16 per share) for the same period of fiscal 2000. Revenues for the first nine months of fiscal 2000 also included gains related to a non-monetary dividend (\$9.5 million) and a non-monetary gain (\$.7 million) on the conversion of shares of common stock of a Company investee pursuant to that investee being acquired. Net income from these two transactions was approximately \$6.3 million (\$0.13 per diluted share).

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**EXPLORATION AND PRODUCTION**

Exploration and Production reported an operating profit of \$95.0 million for the first nine months of fiscal 2001, compared with an operating profit of \$42.1 million for the same period of fiscal 2000. Oil & gas revenues increased to \$184.9 million from \$105.7 million for the same periods.

Natural gas revenues increased \$77.5 million, or 87 percent, due primarily to higher gas prices (106 percent), partially offset by lower natural gas volumes (8.5 percent). Oil revenues increased \$1.5 million, or 9 percent, as both oil prices (7 percent) and volumes (2 percent) increased, compared with the first nine months of fiscal 2000. Natural gas prices averaged \$5.17 per mcf and \$2.51 per mcf for the first nine months of fiscal 2001 and 2000, respectively. Natural gas volumes averaged 118.1 mmcf/d and 129.0 mmcf/d, respectively. Crude oil prices averaged \$28.54 per bbl and \$26.67 per bbl for the first nine months of fiscal 2001 and 2000, respectively. Crude oil volumes averaged 2,314 bbls/d and 2,268 bbls/d, respectively.

Increased exploration activity in the first nine months of fiscal 2001 resulted in an increase in exploration expenses. Geophysical, dry hole, exploration overhead and abandonment expenses were \$35.0 million for the first nine months of fiscal 2001, \$13.7 million higher than in the same period of fiscal 2000. Also in fiscal 2001 were impairment charges of \$4.5 million for proved Exploration and Production properties in the first nine months of fiscal 2001. After tax, the impairment charges reduced net income by approximately \$2.8 million, \$0.05 per share, on a diluted basis.

Production expenses were \$28.8 million for the first nine months of fiscal 2001, compared with \$18.9 million in fiscal 2000 as production taxes and ad valorem taxes increased because of higher natural gas prices.

**DOMESTIC DRILLING**

Domestic Drilling's operating profit was \$68.0 million and \$24.7 million for the first nine months of fiscal 2001 and fiscal 2000, respectively. Revenues for the same periods were \$228.8 million and \$156.7 million, respectively. The increase is due primarily to improved land operations, with dayrates averaging approximately \$13,000 per day in the first nine months of fiscal 2001, compared with \$8,400 in the same period of fiscal 2000. Land rig utilization was 95 percent and 82 percent for the first nine months of fiscal 2001 and 2000, respectively. Operating profit from offshore operations increased 6 percent for the first nine months of fiscal 2001, compared to the same period in fiscal 2000. Offshore rig utilization was 97 percent and 94 percent for the same periods, respectively. Also impacting the operating profit increase for domestic drilling for the nine months was a reduction in depreciation expense of approximately \$11.4 million due to the change in the Company's estimated useful life for drilling equipment (see note 10). Contract drilling expense for the nine months ended June 30, 2001, included \$3.25 million related to a litigation settlement (see note 12).

Although there appears to be a softening in dayrates, as the result of lower commodity prices, average dayrates in the fourth quarter are expected to be in line with third quarter rates of \$15,000 per day. Rig utilization for land and offshore are expected to be 98 percent to 100 percent.

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**INTERNATIONAL DRILLING**

International Drilling's operating profit increased to \$19.3 million from \$5.6 million. Revenues increased to \$114.3 million from \$99.3 million. The increase in operating profit is due primarily to a reduction in depreciation expense of approximately \$11.1 million due to a change in the Company's estimated useful life for drilling equipment (see note 10). There were also several one-time contract settlement items that had a positive impact of approximately \$2.0 million in the first nine months of fiscal 2001. International rig utilization averaged 54 percent and 46 percent for the first nine months of fiscal 2001 and 2000, respectively. Revenue days were 5,455 and 5,185 for the same periods, respectively.

**OTHER**

Other revenues decreased approximately \$18 million over last year, with \$10.0 million due to decreased gains from the sale of available-for-sale securities, partially offset by a \$1.9 million increase in interest income due to increased cash balances. Revenues for the first nine months of fiscal 2000 also included gains related to a non-monetary dividend (\$9.5 million) and a non-monetary gain (\$.7 million) on the conversion of shares of common stock of a Company investee pursuant to that investee being acquired.

Interest expense for the first nine months of fiscal 2001 was a credit of \$1.0 million compared with an expense of \$2.4 million in fiscal 2000. The decrease of \$3.4 million is the result of an increase in capitalized interest of \$.7 million and the reversal of \$2.7 million of interest expense related to a lawsuit (see note 13).

Corporate general and administrative expense increased from \$8.6 million in the first nine months of fiscal 2000 to \$11.7 million in the same period of fiscal 2001. The increase is related to labor and employee benefits, advertising costs, and professional services related to establishing the Company's Exploration & Production Division as a separate public entity and pension expense.

The Company's effective income tax rate decreased to 39.5 percent for the nine months compared to 41.4 percent for the first nine months of fiscal 2000. The decrease is due primarily to a larger proportionate income in the Company's U.S. operations instead of international drilling operations.

As previously announced, an investment banker is currently assisting the Company in its effort to establish its Exploration and Production Division as a separate public entity, while expanding that operation through some sort of combination. The Company is currently discussing the potential combination with certain candidates.

**LIQUIDITY AND CAPITAL RESOURCES**

Net cash provided by operating activities was \$211.3 million for the first nine months of fiscal 2001, compared with \$140.0 million for the same period in 2000. Capital expenditures were \$186.7 million and \$76.7 million for the first nine months of fiscal 2001 and 2000, respectively.

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The Company anticipates capital expenditures to be approximately \$295.0 million for fiscal 2001, which is less than projected internally generated cash flows. The Company's indebtedness totaled \$50.0 million as of June 30, 2001, as described in note 8 to the Consolidated Condensed Financial Statements.

During the third quarter of fiscal 2001, the Company purchased 60,000 shares of the Company's common stock under the previously approved stock repurchase program that authorizes the purchase of up to an additional 1,000,000 shares of the Company's common stock.

There were no other significant changes in the Company's financial position since September 30, 2000.

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**QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**  
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For a description of the Company's market risks, see "Item 7(a). Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2000, and Note 15 to the Consolidated Condensed Financial Statements contained in Part I hereof.

**PART II. OTHER INFORMATION**  
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**Item 1 Legal Proceedings**

The discussion of legal proceedings disclosed in Note 12 to the Consolidated Condensed Financial Statements contained in Part I hereof is hereby incorporated by reference.

**Item 6(b) Reports on Form 8-K**

For the three months ended June 30, 2001, there was one Form 8-K filed on June 13, 2001, which reported events under Item 5 of the Form 8-K regarding certain litigation and a press release dated June 13, 2001.

**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.

Date: AUGUST 13, 2001  
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/s/ DOUGLAS E. FEARS  
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Douglas E. Fears, Chief Financial Officer

Date: AUGUST 13, 2001  
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/s/ HANS C. HELMERICH  
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Hans C. Helmerich, President

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