

HELMERICH & PAYNE INC
Form 10-Q
May 08, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended: March 31, 2007

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)

**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 is a large accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

1437 South Boulder Avenue, Tulsa, Oklahoma,74119 (Address of principal executive office)(Zip Code) 1

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Large accelerated filer **X**

Accelerated filer **o**

Non-accelerated filer **o**

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

CLASS

OUTSTANDING AT April 30, 2007

Common Stock, \$0.10 par value

103,314,928

Total Number of Pages - 31

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share and per share amounts)

ITEM 1. FINANCIAL STATEMENTS

	Unaudited March 31, 2007	September 30, 2006
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 89,140	\$ 33,853
Short term investments	344	48,673
Accounts receivable, less reserve of \$2,001 at March 31, 2007 and \$2,007 at September 30, 2006	304,486	289,479
Inventories	26,025	26,165
Deferred income tax	11,301	10,168
Assets held for sale		4,234
Prepaid expenses and other	32,726	16,119
Total current assets	464,022	428,691
Investments	206,013	218,309
Property, plant and equipment, net	1,807,965	1,483,134
Other assets	6,537	4,578
Total assets	\$ 2,484,537	\$ 2,134,712
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Notes payable	\$	\$ 3,721
Accounts payable	116,612	138,750
Accrued liabilities	106,120	97,077
Long-term debt due within one year	25,000	25,000
Total current liabilities	247,732	264,548
NonCurrent liabilities:		
Long-term notes payable	330,000	175,000
Deferred income taxes	294,755	269,919
Other	42,919	43,353
Total noncurrent liabilities	667,674	488,272
Shareholders' equity:		
Common stock, \$.10 par value, 160,000,000 shares authorized, 107,057,904 shares issued	10,706	10,706
Preferred stock, no par value, 1,000,000 shares authorized, no shares issued		
Additional paid-in capital	138,934	135,500
Retained earnings	1,423,489	1,215,127
Accumulated other comprehensive income	59,748	69,645
Treasury stock, at cost	(63,746) (49,086)
Total shareholders' equity	1,569,131	1,381,892
Total liabilities and shareholders' equity	\$ 2,484,537	\$ 2,134,712

The accompanying notes are an integral part of these statements.

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	March 31, 2007	2006	March 31, 2007	2006
Operating revenues:				
Drilling U.S. Land	\$ 269,145	\$ 193,668	\$ 539,045	\$ 366,422
Drilling U.S. Offshore	24,062	33,703	55,048	63,223
Drilling International	76,591	61,117	159,205	111,374
Real Estate	2,738	2,342	5,637	5,199
	372,536	290,830	758,935	546,218
Operating costs and other:				
Operating costs, excluding depreciation	199,456	156,800	398,923	297,396
Depreciation	32,952	23,385	63,103	46,308
General and administrative	13,350	13,957	23,963	25,895
Gain from involuntary conversion of long-lived assets	(5,170)		(5,170)	
Income from asset sales	(32,336)	(3,563)	(32,822)	(4,536)
	208,252	190,579	447,997	365,063
Operating income	164,284	100,251	310,938	181,155
Other income (expense):				
Interest and dividend income	1,034	2,456	2,278	4,986
Interest expense	(1,913)	(1,946)	(2,832)	(4,526)
Gain on sale of investment securities	177		26,514	2,720
Other	66	27	130	(486)
	(636)	537	26,090	2,694
Income before income taxes and equity in income of affiliate	163,648	100,788	337,028	183,849
Income tax provision	59,338	38,240	123,436	71,042
Equity in income of affiliate net of income taxes	2,551	2,025	4,055	2,580
NET INCOME	\$ 106,861	\$ 64,573	\$ 217,647	\$ 115,387
Earnings per common share:				
Basic	\$ 1.04	\$ 0.62	\$ 2.11	\$ 1.11
Diluted	\$ 1.02	\$ 0.61	\$ 2.08	\$ 1.09
Weighted average shares outstanding:				
Basic	103,239	104,627	103,276	104,303
Diluted	104,832	106,114	104,841	105,771
Dividends declared per common share	\$ 0.0450	\$ 0.04125	\$ 0.0900	\$ 0.0825

The accompanying notes are an integral part of these statements.

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)
(in thousands)

	Six Months Ended March 31,	
	2007	2006
OPERATING ACTIVITIES:		
Net income	\$ 217,647	\$ 115,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	63,103	46,308
Non-cash charges, net	99	
Equity in income of affiliate before income taxes	(6,540)	(4,161)
Stock-based compensation	3,560	6,587
Gain on sale of investment securities	(26,376)	(2,584)
Gain from involuntary conversion of long-lived assets	(5,170)	
Gain on sale of assets	(32,822)	(4,536)
Other-net		(769)
Deferred income tax expense	27,354	7,317
Change in assets and liabilities-		
Accounts receivable	(21,115)	(30,796)
Inventories	140	(2,684)
Prepaid expenses and other	(18,566)	(8,849)
Accounts payable	34,920	4,749
Accrued liabilities	8,792	5,984
Deferred income taxes	2,416	3,205
Other noncurrent liabilities	(1,577)	2,642
Net cash provided by operating activities	245,865	137,800
INVESTING ACTIVITIES:		
Capital expenditures	(433,900)	(170,900)
Purchase of investments		(83,010)
Insurance proceeds from involuntary conversion	5,170	
Proceeds from sale of investments	84,812	5,060
Proceeds from asset sales	37,947	7,923
Other	214	
Net cash used in investing activities	(305,757)	(240,927)
FINANCING ACTIVITIES:		
Repurchase of common stock	(17,621)	
Decrease in notes payable	(3,721)	
Increase in long-term debt	155,000	
Decrease in bank overdraft	(10,195)	
Dividends paid	(9,311)	(8,624)
Proceeds from exercise of stock options	872	11,860
Excess tax benefit from stock-based compensation	155	6,294
Net cash provided by financing activities	115,179	9,530
Net increase (decrease) in cash and cash equivalents	55,287	(93,597)
Cash and cash equivalents, beginning of period	33,853	288,752
Cash and cash equivalents, end of period	\$ 89,140	\$ 195,155

The accompanying notes are an integral part of these statements.

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS EQUITY

(in thousands, except per share amounts)

	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-In	Earnings	Other	Shares	Amount	Shareholders
			Capital		Income			Equity
Balance, September 30, 2006	107,058	\$ 10,706	\$ 135,500	\$ 1,215,127	\$ 69,645	3,189	\$ (49,086))\$ 1,381,892
Comprehensive Income:								
Net Income				217,647				217,647
Other comprehensive income, Unrealized losses on available-for-sale securities, net of realized gains included in net income of \$16,438 (net of \$10,075 income tax)					(9,897)			(9,897)
Total Comprehensive income								207,750
Cash dividends (\$0.09 per share)				(9,285)				(9,285)
Exercise of stock options			(327)			(74)	1,199	872
Tax benefit of stock-based awards, including excess tax benefits of \$155			201					201
Repurchase of common stock						682	(15,859)	(15,859)
Stock-based compensation			3,560					3,560
Balance, March 31, 2007	107,058	\$ 10,706	\$ 138,934	\$ 1,423,489	\$ 59,748	3,797	\$ (63,746))\$ 1,569,131

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States for complete financial statements and, therefore should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 2006 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.

All prior period common stock and applicable share and per share amounts have been retroactively adjusted to reflect a 2-for-1 split of the Company's common stock effective June 26, 2006.

2. 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 includes 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 March 31, 2007		Six Months Ended March 31, 2007	
	2007	2006	2007	2006
Basic weighted average shares	103,239	104,627	103,276	104,303
Effect of dilutive shares:				
Stock options and restricted stock	1,593	1,487	1,565	1,468
Diluted weighted average shares	104,832	106,114	104,841	105,771

For the three months ended March 31, 2007, options to purchase 605,511 shares of common stock were outstanding but were not included in the computation of diluted earnings per share. Inclusion of these shares would be antidilutive.

For the six months ended March 31, 2007, options to purchase 1,332,036 shares of common stock were outstanding but were not included in the computation of diluted earnings per share. Inclusion of these shares would be antidilutive.

For the three and six months ended March 31, 2006, all options outstanding were included in the computation of diluted earnings per share.

3. Inventories

Inventories consist primarily of replacement parts and supplies held for use in the Company's drilling operations.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

4. Investments

The following is a summary of available-for-sale securities, which excludes those accounted for under the equity method of accounting, an investment in a limited partnership carried at cost and assets held in a Non-qualified Supplemental Savings Plan. The investment in the limited partnership carried at cost was \$12.4 million at March 31, 2007 and September 30, 2006. The estimated fair value of the investments carried at cost was \$17.0 million and \$14.5 million at March 31, 2007 and September 30, 2006, respectively. The assets held in the Non-qualified Supplemental Savings Plan are valued at fair market which totaled \$7.0 million at March 31, 2007 and \$5.9 million at September 30, 2006. The recorded amounts for investments accounted for under the equity method are \$64.8 million and \$58.3 million at March 31, 2007 and September 30, 2006, respectively.

	Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Est. Fair Value
Equity Securities 03/31/07	\$ 15,399	\$ 106,410	\$	\$ 121,809
Equity Securities 09/30/06	\$ 19,413	\$ 122,490	\$ (115)	\$ 141,788

5. Sale of Investment Securities

Net income includes after-tax gains from the sale of available-for-sale securities as follows (in thousands, except per share amounts):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
After-tax gain (loss)	\$ 109	\$	\$ 16,293	\$ 1,721
Earnings per diluted share	\$	\$	\$ 0.15	\$ 0.02

6. Comprehensive Income

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
Net Income	\$ 106,861	\$ 64,573	\$ 217,647	\$ 115,387
Other comprehensive income:				
Net unrealized gain (loss) on securities	6,340	23,012	(9,897)	31,256
Total comprehensive income	\$ 113,201	\$ 87,585	\$ 207,750	\$ 146,643

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

	March 31, 2007	September 30, 2006
Unrealized gain on securities, net	\$ 65,974	\$ 75,871
Minimum pension liability	(6,226)	(6,226)
Accumulated other comprehensive income	\$ 59,748	\$ 69,645

HELMERICH & PAYNE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

7. Financial Instruments

At September 30, 2006, the Company's short-term investments consisted primarily of auction rate securities classified as available-for-sale. During the six months ended March 31, 2007, the Company sold \$48.3 million in auction rate securities with no realized gains or losses. There were no sales of auction rate securities in the second quarter of fiscal 2007. The proceeds of those sales are included in the sale of investments under investing activities on the Consolidated Condensed Statements of Cash Flows.

8. Derivative Financial Instruments

During the three months ended March 31, 2007, the Company entered into two written option transactions which expire May 19, 2007. The Company's objective with a written option is to optimize earnings from the Company's portfolio of available-for-sale securities. An amount equal to the premium received by the Company for the option is recorded as a liability and is subsequently marked-to-market at the end of each accounting period with the results included in net income. Premiums received from writing options that expire unexercised are treated by the Company on the expiration date as realized gains from investments. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Company has realized a gain or loss. As the writer of an option, the Company bears the market risk of an unfavorable change in the price of the security underlying the written option.

The Company received a premium of approximately \$0.2 million. At March 31, 2007, the fair value of the options was approximately (\$0.3) million and accordingly, the Company recorded an expense of \$0.084 million. The adjustment to fair value is included as an other non-operating expense on the Consolidated Condensed Statements of Income and a non-operating, non-cash item in the Consolidated Condensed Statements of Cash Flows.

9. Cash Dividends

The \$0.045 cash dividend declared December 5, 2006, was paid March 1, 2007. On March 7, 2007, a cash dividend of \$0.045 per share was declared for shareholders of record on May 15, 2007, payable June 1, 2007.

10. Stock-Based Compensation

The Company has two plans providing for common-stock based awards to employees and to non-employee Directors. The plans permit the granting of various types of awards including stock options and restricted stock awards. 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 ten years after grant. Vesting requirements are determined by the Human Resources Committee of the Company's Board of Directors. Readers should refer to Note 6 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2006 for additional information related to these stock-based compensation plans.

In October 2005, the Company adopted SFAS 123(R) Share-Based Payment using a modified prospective application. The Company uses the Black-Scholes formula to estimate the value of stock options granted. The fair value of the options is amortized to compensation expense on a straight-line basis over the requisite service periods of the stock awards, which are generally the vesting periods. The Company has the right to satisfy option exercises from treasury shares and from authorized but unissued shares.

HELMERICH & PAYNE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

During the six months ended March 31, 2007, the Company repurchased 681,900 shares of its common stock at an aggregate cost of \$15.9 million. The Company may repurchase additional shares of its common stock during fiscal 2007 if the share price is favorable.

A summary of compensation cost for stock-based payment arrangements recognized in general and administrative expense and cash received from the exercise of stock options is as follows (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	March 31, 2007	2006	March 31, 2007	2006
Compensation expense				
Stock options	\$ 1,382	\$ 3,556	\$ 2,890	\$ 6,180
Restricted stock	343	311	670	407
	\$ 1,725	\$ 3,867	\$ 3,560	\$ 6,587
After-tax stock based compensation	\$ 1,069	\$ 2,398	\$ 2,207	\$ 4,084
Per basic share	\$.01	\$.02	\$.02	\$.04
Per diluted share	\$.01	\$.02	\$.02	\$.04
Cash received from exercise of stock options	\$ 401	\$ 8,142	\$ 872	\$ 11,860

In December 2005, the Company accelerated the vesting of share options held by a senior executive who retired. As a result of that modification, the Company recognized additional compensation expense of \$2.2 million and \$3.1 million respectively, for the three and six months ended March 31, 2006.

STOCK OPTIONS

The following summarizes the weighted-average assumptions utilized in the model for the three and six months ended March 31, 2007 and 2006:

	2007	2006
Risk-free interest rate	4.6 %	4.5 %
Expected stock volatility	35.9 %	36.9 %
Dividend yield	.7 %	.5 %
Expected term (in years)	5.5	5.2

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 volatilities are based on the daily closing price of the Company's stock based upon historical experience over a period which approximates the expected term of the option.

Dividend Yield. The expected dividend yield is based on the Company's current dividend yield.

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

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 (Unaudited)

A summary of stock option activity under the Plan for the three months ended March 31, 2007 and 2006 is presented in the following tables:

March 31, 2007	Shares	Weighted-	Weighted-	Aggregate
Options	(in thousands)	Average	Average	Intrinsic
		Exercise	Remaining	Value
		Price	Contractual	(in thousands)
			Term	
Outstanding at January 1, 2007	6,307	\$ 15.72		
Granted	2	27.45		
Exercised	(33)	12.02		
Forfeited/Expired	(5)	28.90		
Outstanding at March 31, 2007	6,271	\$ 15.74	5.98	\$ 91,551
Vested and expected to vest at March 31, 2007	6,208	\$ 15.63	5.95	\$ 91,322
Exercisable at March 31, 2007	4,560	\$ 12.73	4.98	\$ 80,304

March 31, 2006	Shares	Weighted-	Weighted-	Aggregate
Options	(in thousands)	Average	Average	Intrinsic
		Exercise	Remaining	Value
		Price	Contractual	(in thousands)
			Term	
Outstanding at January 1, 2006	6,807	\$ 13.95		
Granted				
Exercised	(668)	12.18		
Forfeited/Expired	(2)	13.87		
Outstanding at March 31, 2006	6,137	\$ 14.14	6.18	\$ 63,736
Vested and expected to vest at March 31, 2006	6,108	\$ 14.06	6.16	\$ 63,667
Exercisable at March 31, 2006	4,348	\$ 11.85	5.21	\$ 50,139

A summary of stock option activity under the Plan for the six months ended March 31, 2007 and 2006 is presented in the following table:

	Six Months Ended March 31,		2006	
	2007	Weighted-	Shares	Weighted-
	Shares	Average	(in	Average
	(in	Exercise	thousands)	Exercise
	thousands)	Price		Price
Outstanding at October 1,	5,619	\$ 14.24	6,488	\$ 12.28
Granted	731	26.90	640	29.68
Exercised	(74)	10.62	(987)	12.02
Forfeited/Expired	(5)	28.90	(4)	13.19
Outstanding on March 31,	6,271	\$ 15.72	6,137	\$ 14.14

HELMERICH & PAYNE, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 (Unaudited)

The weighted-average fair value of options granted in the first quarter of fiscal 2007 was \$10.36 and the weighted-average fair value of options granted in the second quarter of fiscal 2007 was \$9.11. The weighted-average fair value of options granted in the first quarter of fiscal 2006 was \$11.62. No options were granted in the second quarter of fiscal 2006.

The total intrinsic value of options exercised during the three and six months ended March 31, 2007 was \$0.5 million and \$1.0 million, respectively. The total intrinsic value of options exercised during the three and six months ended March 31, 2006 was \$16.7 million and \$22.4 million, respectively.

As of March 31, 2007, the unrecognized compensation cost related to the stock options was \$13.4 million. That costs is expected to be recognized over a weighted-average period of 2.9 years.

RESTRICTED STOCK

Restricted stock awards consist of the Company's common stock and are time vested over 3-5 years. The Company recognizes compensation expense on a straight-line basis over the vesting period. The fair value of restricted stock awards is determined based on the closing trading price of the Company's shares on the grant date. The weighted-average grant-date fair value of shares granted for the six months ended March 31, 2007 and 2006 was \$26.90 and \$30.24, respectively. No shares were granted in the second quarter of fiscal 2007 and 2006.

A summary of the status of the Company's restricted stock awards as of March 31, 2007 and 2006, and changes during the six months then ended are presented below:

Restricted Stock Awards	Six months ended March 31, 2007		2006	
	Shares (in thousands)	Weighted- Average Grant-Date Fair Value	Shares (in thousands)	Weighted- Average Grant-Date Fair Value
Unvested at October 1,	213	\$ 29.57	10	\$ 16.01
Granted	27	26.90	203	30.24
Vested				
Forfeited				
Unvested at March 31,	240	\$ 29.27	213	\$ 29.57

All grants of restricted stock awards shown in the table above were in the first quarter of that fiscal year.

As of March 31, 2007, there was \$5.3 million of total unrecognized compensation cost related to unvested restricted stock options granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.8 years.

HELMERICH & PAYNE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

11. Notes Payable and Long-term Debt

At March 31, 2007, the Company had the following unsecured long-term debt outstanding:

Maturity Date	Interest Rate	
Fixed rate debt:		
August 15, 2007	5.51%	\$ 25,000,000
August 15, 2009	5.91%	25,000,000
August 15, 2012	6.46%	75,000,000
August 15, 2014	6.56%	75,000,000
Senior credit facility:		
December 18, 2011	5.67%	155,000,000
		\$ 355,000,000
less long-term debt due within one year		(25,000,000)
Long-term debt		\$ 330,000,000

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

On December 18, 2006, the Company entered into an agreement with a multi-bank syndicate for a five-year, \$400 million senior unsecured credit facility. The Company anticipates that the majority of all of the borrowings over the life of the facility will accrue interest at a spread over LIBOR. The Company will also pay a commitment fee based on the unused balance of the facility. The spread over LIBOR as well as the commitment fee will be determined according to a scale based on a ratio of the Company's total debt to total capitalization. The LIBOR spread will range from .30 percent to .45 percent depending on the ratios. At March 31, 2007, the LIBOR spread on borrowings was .35 percent and the commitment fee was .075 percent per annum.

Financial covenants in the facility require the Company to maintain a funded leverage ratio (as defined) of less than 50 percent and an interest coverage ratio (as defined) of not less than 3.00 to 1.00. The new facility contains additional terms, conditions, and restrictions that the Company believes are usual and customary in unsecured debt arrangements for companies that are similar in size and credit quality. At closing, the Company transferred two letters of credit totaling \$20.9 million to the facility that remained outstanding at March 31, 2007. As of March 31, 2007, the Company had \$155 million borrowed against the facility. The advance bears interest at 5.67 percent. Subsequent to March 31, 2007, the outstanding borrowings were reduced by \$10 million.

In conjunction with the \$400 million senior unsecured credit facility, the Company entered into an agreement with a single bank to amend and restate the previous unsecured line of credit from \$50 million to \$5 million. Pricing on the amended line of credit is prime minus 1.75 percent. The covenants and other terms and conditions are similar to the aforementioned senior credit facility except that there is no commitment fee. At March 31, 2007, the Company had no outstanding borrowings against this line.

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12. Income Taxes

The Company's effective tax rate was 36.6 percent in the first six months of fiscal 2007, compared to 38.6 percent in the first six months of fiscal 2006. The effective tax rate for the three months ended March 31, 2007 and 2006 was 36.3 percent and 37.9 percent, respectively. The effective rate differs from the U.S. federal statutory rate of 35.0 percent primarily due to state and foreign taxes.

13. Contingent Liabilities and Commitments

In conjunction with the Company's current drilling rig construction program, purchase commitments for equipment, parts and supplies of approximately \$205.2 million are outstanding at March 31, 2007.

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

14. Segment Information

The Company operates principally in the contract drilling industry. The Company's contract drilling business includes the following operating segments: U.S. Land, U.S. Offshore, and International. The contract drilling operations consist mainly of contracting Company-owned drilling equipment primarily to major oil and gas exploration companies. The Company's primary international areas of operation include Venezuela, Colombia, Ecuador, other South American countries and Africa. The International operations have similar services, have similar types of customers, operate in a consistent manner and have similar economic and regulatory characteristics. Therefore, the Company has aggregated its International operations into one reportable segment. The Company also has a Real Estate segment whose operations are conducted exclusively in the metropolitan area of Tulsa, Oklahoma. The key areas of operation include a shopping center and several multi-tenant warehouses. Each reportable segment is a strategic business unit which is managed separately. Other includes investments and corporate operations.

The Company evaluates segment performance based on income or loss from operations (segment operating income) before income taxes which includes:

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

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

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

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Segment operating income for all segments is a non-GAAP financial measure of the Company's performance, as it excludes general and administrative expenses, corporate depreciation, income from asset sales and other corporate income and expense.

The Company considers segment operating income to be an important supplemental measure of operating performance by presenting trends in the Company's core businesses. This measure is used by the Company to facilitate period-to-period comparisons in operating performance of the Company's reportable segments in the aggregate by eliminating items that affect comparability between periods. The Company believes that segment operating income is useful to investors because it provides a means to evaluate the operating performance of the segments and the Company 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 the Company's operating performance in future periods.

Summarized financial information of the Company's reportable segments for the six months ended March 31, 2007, and 2006, is shown in the following tables:

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income
March 31, 2007				
Contract Drilling:				
U.S. Land	\$ 539,045	\$	\$ 539,045	\$ 228,190
U.S. Offshore	55,048		55,048	7,889
International	159,205		159,205	47,244
	753,298		753,298	283,323
Real Estate	5,637	405	6,042	2,428
	758,935	405	759,340	285,751
Eliminations		(405)	(405)	
Total	\$ 758,935	\$	\$ 758,935	\$ 285,751

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income
March 31, 2006				
Contract Drilling:				
U.S. Land	\$ 366,422	\$	\$ 366,422	\$ 153,868
U.S. Offshore	63,223		63,223	12,480
International	111,374		111,374	22,414
	541,019		541,019	188,762
Real Estate	5,199	394	5,593	2,179
	546,218	394	546,612	190,941
Eliminations		(394)	(394)	
Total	\$ 546,218	\$	\$ 546,218	\$ 190,941

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Summarized financial information of the Company's reportable segments for the three months ended March 31, 2007, and 2006, is shown in the following tables:

(in thousands)	External Sales	Inter- Segment	Total Sales	Segment Operating Income
March 31, 2007				
Contract Drilling:				
U.S. Land	\$ 269,145	\$	\$ 269,145	\$ 109,782
U.S. Offshore	24,062		24,062	2,198
International	76,591		76,591	21,481
			369,798	133,461
Real Estate	2,738	207	2,945	961
		372,536	207	372,743
Eliminations		(207)	(207
Total	\$ 372,536	\$	\$ 372,536	\$ 134,422

(in thousands)	External Sales	Inter- Segment	Total Sales	Segment Operating Income
March 31, 2006				
Contract Drilling:				
U.S. Land	\$ 193,668	\$	\$ 193,668	\$ 82,877
U.S. Offshore	33,703		33,703	7,369
International	61,117		61,117	13,112
			288,488	103,358
Real Estate	2,342	202	2,544	726
		290,830	202	291,032
Eliminations		(202)	(202
Total	\$ 290,830	\$	\$ 290,830	\$ 104,084

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Three Months Ended March 31, 2007 (in thousands)		Six Months Ended March 31, 2007 2006	
		2006	2007	2006
Segment operating income	\$ 134,422	\$ 104,084	\$ 285,751	\$ 190,941
Gain from involuntary conversion of long-lived assets	5,170		5,170	
Income from asset sales	32,336	3,563	32,822	4,536
Corporate general and administrative costs and corporate depreciation	(7,644)	(7,396)	(12,805)	(14,322)
Operating income	164,284	100,251	310,938	181,155
Other income (expense):				
Interest and dividend income	1,034	2,456	2,278	4,986
Interest expense	(1,913)	(1,946)	(2,832)	(4,526)
Gain on sale of investment securities	177		26,514	2,720
Other	66	27	130	(486)
Total other income (expense)	(636)	537	26,090	2,694
Income before income taxes and equity in income of affiliate	\$ 163,648	\$ 100,788	\$ 337,028	\$ 183,849

	March 31, 2007 (in thousands)	September 30, 2006
Total Assets		
U.S. Land	\$ 1,734,293	\$ 1,356,817
U.S. Offshore	108,658	110,192
International	292,243	311,605
	2,135,194	1,778,614
Real Estate	30,435	30,626
Other		