

HELMERICH & PAYNE INC  
Form 10-Q  
May 05, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For quarterly period ended: March 31, 2009

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)

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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 x No o**

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 o No o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

**Large accelerated filer x**

**Accelerated filer o**

**Non-accelerated filer o**

**Smaller reporting company o**

(Do not check if a smaller reporting company)

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

**CLASS**  
Common Stock, \$0.10 par value

**OUTSTANDING AT April 30, 2009**  
105,443,092

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

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## 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

|   | March 31,<br>2009 | September 30,<br>2008 |
|---|-------------------|-----------------------|
| <b><u>ASSETS</u></b>  |                   |                       |
| Current assets:   |                   |                       |
| Cash and cash equivalents   | \$ 126,378        | \$ 121,513            |
| Short-term investments  | 12,500            |                       |
| Accounts receivable, less reserve of \$1,331 at March 31, 2009 and September 30, 2008   | 460,999           | 462,833               |
| Inventories   | 41,675            | 33,098                |
| Deferred income taxes   | 13,985            | 21,939                |
| Prepaid expenses and other  | 49,331            | 51,264                |
| Total current assets  | 704,868           | 690,647               |
| Investments   | 176,156           | 199,266               |
| Property, plant and equipment, net  | 3,086,714         | 2,682,251             |
| Other assets  | 12,078            | 15,881                |
| Total assets  | \$ 3,979,816      | \$ 3,588,045          |
| <b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>                                      |                   |                       |
| Current liabilities:  |                   |                       |
| Accounts payable  | \$ 160,654        | \$ 153,851            |
| Accrued liabilities   | 137,916           | 128,373               |
| Short-term debt   | 105,000           |                       |
| Notes payable   |                   | 1,733                 |
| Long-term debt due within one year  | 25,000            | 25,000                |
| Total current liabilities   | 428,570           | 308,957               |
| Noncurrent liabilities:   |                   |                       |
| Long-term notes payable   | 430,000           | 475,000               |
| Deferred income taxes   | 580,790           | 479,963               |
| Other   | 54,399            | 58,651                |
| Total noncurrent liabilities  | 1,065,189         | 1,013,614             |
| 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  | 172,213           | 169,497               |
| Retained earnings   | 2,320,981         | 2,082,518             |
| Accumulated other comprehensive income  | 15,930            | 38,407                |
| Treasury stock, at cost   | (33,773)          | (35,654)              |

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|  |    |           |    |           |
|--|----|-----------|----|-----------|
| Total shareholders' equity                 |    | 2,486,057 |    | 2,265,474 |
| Total liabilities and shareholders' equity | \$ | 3,979,816 | \$ | 3,588,045 |

The accompanying notes are an integral part of these statements.

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

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share data)

|   | Three Months Ended<br>March 31, |                   | Six Months Ended<br>March 31, |                   |
|---|---------------------------------|-------------------|-------------------------------|-------------------|
|   | 2009                            | 2008              | 2009                          | 2008              |
| <b>Operating revenues:</b>  |                                 |                   |                               |                   |
| Drilling U.S. Land  | \$ 414,514                      | \$ 365,263        | \$ 889,718                    | \$ 712,907        |
| Drilling Offshore   | 51,331                          | 29,789            | 101,819                       | 57,070            |
| Drilling International Land   | 51,829                          | 75,757            | 147,007                       | 154,359           |
| Other   | 2,626                           | 2,835             | 5,510                         | 5,971             |
|   | 520,300                         | 473,644           | 1,144,054                     | 930,307           |
| <b>Operating costs and other:</b>                                   |                                 |                   |                               |                   |
| Operating costs, excluding depreciation                             | 263,294                         | 253,958           | 594,222                       | 489,753           |
| Depreciation  | 57,113                          | 51,872            | 111,885                       | 95,856            |
| General and administrative  | 16,434                          | 14,090            | 31,582                        | 27,993            |
| Research and development  | 2,176                           |                   | 3,853                         |                   |
| Gain from involuntary conversion of long-lived assets               |                                 |                   | (277)                         | (4,810)           |
| Income from asset sales   | (2,055)                         | (1,946)           | (2,969)                       | (2,788)           |
|   | 336,962                         | 317,974           | 738,296                       | 606,004           |
| <b>Operating income</b>   | <b>183,338</b>                  | <b>155,670</b>    | <b>405,758</b>                | <b>324,303</b>    |
| <b>Other income (expense):</b>                                      |                                 |                   |                               |                   |
| Interest and dividend income  | 2,150                           | 1,220             | 3,936                         | 2,335             |
| Interest expense  | (2,554)                         | (4,773)           | (6,254)                       | (9,604)           |
| Gain on sale of investment securities                               |                                 | 5,476             |                               | 5,606             |
| Other   | (28)                            | 180               | 100                           | (436)             |
|   | (432)                           | 2,103             | (2,218)                       | (2,099)           |
| <b>Income before income taxes and equity in income of affiliate</b> | <b>182,906</b>                  | <b>157,773</b>    | <b>403,540</b>                | <b>322,204</b>    |
| Income tax provision  | 83,390                          | 58,784            | 164,638                       | 118,930           |
| Equity in income of affiliate net of income taxes                   | 4,222                           | 3,065             | 10,111                        | 6,610             |
| <b>NET INCOME</b>   | <b>\$ 103,738</b>               | <b>\$ 102,054</b> | <b>\$ 249,013</b>             | <b>\$ 209,884</b> |
| <b>Earnings per common share:</b>                                   |                                 |                   |                               |                   |
| Basic   | \$ .99                          | \$ .98            | \$ 2.37                       | \$ 2.02           |
| Diluted   | \$ .98                          | \$ .96            | \$ 2.34                       | \$ 1.98           |
| <b>Weighted average shares outstanding:</b>                         |                                 |                   |                               |                   |
| Basic   | 105,317                         | 103,883           | 105,283                       | 103,695           |
| Diluted   | 106,372                         | 106,090           | 106,401                       | 105,740           |
| Dividends declared per common share                                 | \$ 0.050                        | \$ 0.045          | \$ 0.100                      | \$ 0.090          |

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The accompanying notes are an integral part of these statements.

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

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

|   | Six Months Ended<br>March 31, |             |
|---|-------------------------------|-------------|
|   | 2009                          | 2008        |
| <b>OPERATING ACTIVITIES:</b>  |                               |             |
| Net income  | \$ 249,013                    | \$ 209,884  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |             |
| Depreciation  | 111,885                       | 95,856      |
| Provision for bad debt  | 15                            | 688         |
| Equity in income of affiliate before income taxes                                 | (16,308)                      | (10,662)    |
| Stock-based compensation  | 4,238                         | 3,712       |
| Gain on sale of investment securities   |                               | (5,476)     |
| Gain from involuntary conversion of long-lived assets                             | (277)                         | (4,810)     |
| Income from asset sales   | (2,969)                       | (2,788)     |
| Deferred income tax expense   | 115,237                       | 42,029      |
| Change in assets and liabilities-   |                               |             |
| Accounts receivable   | 1,819                         | (25,809)    |
| Inventories   | (8,577)                       | (4,354)     |
| Prepaid expenses and other  | 5,716                         | (11,919)    |
| Accounts payable  | 15,008                        | (31,994)    |
| Accrued liabilities   | 9,552                         | (1,195)     |
| Deferred income taxes   | 6,942                         | 4,244       |
| Other noncurrent liabilities  | (806)                         | 5,849       |
| Net cash provided by operating activities   | 490,488                       | 263,255     |
| <b>INVESTING ACTIVITIES:</b>  |                               |             |
| Capital expenditures  | (525,884)                     | (321,711)   |
| Insurance proceeds from involuntary conversion                                    | 277                           | 8,500       |
| Proceeds from sale of investments   |                               | 7,769       |
| Proceeds from asset sales   | 4,333                         | 3,668       |
| Purchase of short-term investments  | (12,500)                      |             |
| Other   | (16)                          |             |
| Net cash used in investing activities   | (533,790)                     | (301,774)   |
| <b>FINANCING ACTIVITIES:</b>  |                               |             |
| Decrease in notes payable   | (1,733)                       |             |
| Proceeds from line of credit  | 2,030,000                     | 1,710,000   |
| Payments on line of credit  | (1,970,000)                   | (1,675,000) |
| Dividends paid  | (10,548)                      | (9,354)     |
| Proceeds from exercise of stock options   | 429                           | 8,284       |
| Excess tax benefit from stock-based compensation                                  | 19                            | 6,110       |
| Net cash provided by financing activities   | 48,167                        | 40,040      |
| Net increase in cash and cash equivalents   | 4,865                         | 1,521       |
| Cash and cash equivalents, beginning of period                                    | 121,513                       | 89,215      |



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|  |    |         |    |        |
|--|----|---------|----|--------|
| Cash and cash equivalents, end of period | \$ | 126,378 | \$ | 90,736 |
|--|----|---------|----|--------|

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS EQUITY

SIX MONTHS ENDED MARCH 31, 2009

(Unaudited)

(in thousands, except per share amounts)

|  | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury Stock<br>Shares | Treasury Stock<br>Amount | Total<br>Shareholders<br>Equity |
|--|------------------------|------------------------|----------------------------------|----------------------|---|--------------------------|--------------------------|---------------------------------|
| Balance, September 30, 2008  | 107,058                | \$ 10,706              | \$ 169,497                       | \$ 2,082,518         | \$ 38,407                                       | 1,835                    | \$ (35,654)              | \$ 2,265,474                    |
| Comprehensive Income:  |                        |                        |                                  |                      |   |                          |                          |                                 |
| Net income   |                        |                        |                                  | 249,013              |   |                          |                          | 249,013                         |
| Other comprehensive income, Unrealized losses on available- for-sale securities (net of \$13,775 income tax) |                        |                        |                                  |                      | (22,477)  |                          |                          | (22,477)                        |
| Total comprehensive income   |                        |                        |                                  |                      |   |                          |                          | 226,536                         |
| Capital adjustment of equity investee  |                        |                        | 174                              |                      |   |                          |                          | 174                             |
| Cash dividends (\$0.10 per share)  |                        |                        |                                  | (10,550)             |   |                          |                          | (10,550)                        |
| Exercise of stock options  |                        |                        | (177)                            |                      |   | (31)                     | 606                      | 429                             |
| Tax benefit of stock-based awards, including excess tax benefits of \$26                                     |                        |                        | (244)                            |                      |   |                          |                          | (244)                           |
| Treasury stock issued for vested restricted stock  |                        |                        | (1,275)                          |                      |   | (66)                     | 1,275                    |                                 |
| Stock-based compensation   |                        |                        | 4,238                            |                      |   |                          |                          | 4,238                           |
| Balance, March 31, 2009  | 107,058                | \$ 10,706              | \$ 172,213                       | \$ 2,320,981         | \$ 15,930                                       | 1,738                    | \$ (33,773)              | \$ 2,486,057                    |

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 2008 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.

As more fully described in the Company's 2008 Annual Report on Form 10-K, the Company's contract drilling revenues are comprised of daywork drilling contracts for which the related revenues and expenses are recognized as services are performed. For contracts that are terminated by customers prior to the expirations of their fixed term, contractual provisions customarily require early termination amounts to be paid to the Company. Revenues from early terminated contracts are recognized when all contractual requirements have been met.

Certain amounts in the accompanying consolidated financial statements for prior periods have been reclassified to conform to current year presentation. Specifically, the Real Estate segment shown separately at March 31, 2008, has been included with all other non-reportable business segments.

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<br>March 31, |      | Six Months Ended<br>March 31, |      |
|---------------------------------|------|-------------------------------|------|
| 2009                            | 2008 | 2009                          | 2008 |

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|                                    |         |         |         |         |
|------------------------------------|---------|---------|---------|---------|
| Basic weighted average shares      | 105,317 | 103,883 | 105,283 | 103,695 |
| Effect of dilutive shares:         |         |         |         |         |
| Stock options and restricted stock | 1,055   | 2,207   | 1,118   | 2,045   |
| Diluted weighted average shares    | 106,372 | 106,090 | 106,401 | 105,740 |

For the three and six months ended March 31, 2009, options to purchase 1,869,424 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, 2008, options to purchase 710,000 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.

### 3. Operations and Risks in Venezuela

Typically, contract drilling revenues are recognized as services are performed. In U.S. generally accepted accounting principles, one of the basic revenue recognition criteria is that collectability of the revenue is reasonably assured. The Company's revenue in Venezuela is from providing drilling services to Petroleos de Venezuela, S.A. (PDVSA), the Venezuelan state-owned petroleum company. The Company determined, as of the beginning of the second quarter of fiscal 2009 and forward, the revenue recognition criteria in Venezuela is no longer met as collectability of revenue is not reasonably assured, primarily due to the uncertainty of the timing of collectability as discussed further below. As a result of this change, \$35.6 million of revenue was not recorded in the International Land segment in the second quarter of fiscal 2009. As of March 31,

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

2009 and December 31, 2008, the Consolidated Balance Sheet reflected accounts receivable from PDVSA of \$73.6 million and \$76.0 million, respectively. During the second quarter of fiscal 2009, \$2.4 million was collected from PDVSA. Additionally, subsequent to the end of the second fiscal quarter, additional payments of approximately \$8.1 million were received through April 30, 2009. The Company does not have enough information to conclude that the remaining receivable balance is not probable of collection. However, there is uncertainty regarding the timing of the collection due to the current political, economic and social instability in Venezuela, the dependence by Venezuela on oil to largely support its economy and the failure of PDVSA to pay many service companies working in Venezuela. The collection of receivables from PDVSA has historically been more difficult and slower than that of other customers in international countries in which the Company has drilling operations due to PDVSA policies and procedures.

The Company is exposed to risks of currency devaluation in Venezuela primarily as a result of bolivar fuerte (Bsf) receivable and Bsf cash balances.

The Company has made applications with the Venezuelan government requesting the approval to convert bolivar fuerte cash balances to U.S. dollars. Upon approval from the Venezuelan government, the Company's Venezuelan subsidiary may remit approximately \$28.4 million as a dividend to its U.S. based parent as cash balances permit. While the Company has been successful in the past in obtaining government approval for conversion of bolivar fuerte to U.S. dollars, there is no guarantee that future conversion to U.S. dollars will be permitted. In the event that conversion to U.S. dollars would be prohibited, then bolivar fuerte cash balances would increase and expose the Company to increased risk of devaluation.

The Venezuelan subsidiary has received notification from PDVSA that reimbursement of U.S. dollar invoices previously paid in Bsf will be made only when supporting documentation has been approved. The supporting documentation has been delivered to PDVSA and is awaiting approval. The approval and subsequent payment would result in reducing the foreign currency exposure by approximately \$38.6 million. The Company is unable to determine when payment will be received.

Past devaluation losses may not be reflective of the potential for future devaluation losses. Venezuela continues to operate under exchange controls and the Venezuelan bolivar fuerte exchange rate has remained fixed at Bsf 2.150 to one U.S. dollar since March 2005. The exact amount and timing of any future devaluations of the Venezuelan bolivar fuerte exchange rate is uncertain. At March 31, 2009, the Company had the equivalent of \$24 million in cash in Bsf's exposed to the risk of currency devaluation.

While the Company is unable to predict the magnitude and timing of future devaluation in Venezuela, if current activity levels continue and if a 10 percent to 30 percent devaluation were to occur, the Company could experience potential currency devaluation losses

ranging from approximately \$5.0 million to \$12.5 million.

During the second quarter of fiscal 2009, the Company discontinued work for PDVSA as contracts expired. All of the Company's eleven rigs were active in Venezuela during the first quarter of fiscal 2009. At the end of the second quarter of fiscal 2009, only seven of the rigs were active. The Company will continue to idle rigs along with other efforts until satisfactory payments for services rendered are received. If payments are not received, it is likely that the remaining rigs will become idle by the end of August 2009. At March 31, 2009, the net book value of long-lived assets in Venezuela was \$76.2 million.

Readers should refer to Note 17 of these Consolidated Condensed Financial Statements for additional information related to risk factors in international operations.

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

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

## 4. Inventories

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

## 5. Investments

The following is a summary of available-for-sale securities, which excludes securities accounted for under the equity method of accounting, investments in limited partnerships carried at cost and assets held in a Non-qualified Supplemental Savings Plan.

|                            | Cost           | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|----------------------------|----------------|------------------------------|-------------------------------|----------------------------|
|                            | (in thousands) |                              |                               |                            |
| Equity securities 03/31/09 | \$ 7,685       | \$ 31,615                    | \$                            | \$ 39,300                  |
| Equity securities 09/30/08 | \$ 7,685       | \$ 67,867                    | \$                            | \$ 75,552                  |

The investments in limited partnerships carried at cost were \$12.4 million at March 31, 2009 and September 30, 2008. The estimated fair value of the investments carried at cost was \$14.6 million and \$17.3 million at March 31, 2009 and September 30, 2008, respectively. The assets held in the Non-qualified Supplemental Savings Plan are carried at fair value which totaled \$3.0 million at March 31, 2009 and \$6.4 million at September 30, 2008. The recorded amounts for investments accounted for under the equity method are \$121.5 million and \$104.9 million at March 31, 2009 and September 30, 2008, respectively. During the six months ended March 31, 2009, the Company increased the equity investment \$0.3 million (\$0.2 million, net of tax) to account for capital transactions of Atwood Oceanics, Inc. (Atwood). At March 31, 2009, the Company owned 8,000,000 shares of Atwood with a fair value of \$132.7 million.

Effective April 1, 2009, Atwood will be accounted for as an available-for-sale investment, as the Company has determined it no longer exercises significant influence through the Atwood board of director seats and will discontinue accounting for Atwood using the equity method.

## 6. Comprehensive Income

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

|  | Three Months Ended<br>March 31, |            | Six Months Ended<br>March 31, |            |
|--|---------------------------------|------------|-------------------------------|------------|
|  | 2009                            | 2008       | 2009                          | 2008       |
| Net Income   | \$ 103,738                      | \$ 102,054 | \$ 249,013                    | \$ 209,884 |
| Other comprehensive income:                          |                                 |            |                               |            |
| Unrealized appreciation (depreciation) on securities | (1,654)                         | (13,719)   | (36,252)                      | (22,112)   |
| Income taxes   | 628                             | 5,213      | 13,775                        | 8,402      |
|  | (1,026)                         | (8,506)    | (22,477)                      | (13,710)   |
| Reclassification of realized gains in net income     |                                 | (5,476)    |                               | (5,606)    |
| Income taxes   |                                 | 2,081      |                               | 2,130      |
|  |                                 | (3,395)    |                               | (3,476)    |
| Minimum pension liability adjustments                |                                 | (3)        |                               | (6)        |
| Income taxes   |                                 | 1          |                               | 2          |
|  |                                 | (2)        |                               | (4)        |
| Total comprehensive income                           | \$ 102,712                      | \$ 90,151  | \$ 226,536                    | \$ 192,694 |



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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

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

|   | <b>March 31,<br/>2009</b> | <b>September 30,<br/>2008</b> |
|---|---------------------------|-------------------------------|
| Unrealized appreciation on securities, net                | \$ 19,601                 | \$ 42,078                     |
| Unrecognized actuarial gain (loss) and prior service cost | (3,671)                   | (3,671)                       |
| Accumulated other comprehensive income                    | \$ 15,930                 | \$ 38,407                     |

7. Financial Instruments

At March 31, 2009, the Company's short-term investments consisted of a bank certificate of deposit with an original maturity greater than three months. Interest earned is included in interest and dividend income on the Consolidated Condensed Statement of Income.

8. Derivative Financial Instruments

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (SFAS No. 161). SFAS No. 161 provides companies with requirements for enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on a company's financial position, financial performance and cash flows. In accordance with the effective date of SFAS No. 161, the Company adopted the disclosure provisions of SFAS No. 161 during the three months ended March 31, 2009.

The Company is exposed to market risk in the normal course of business operations due to ongoing investing and financing activities. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company has not historically entered into derivative financial instruments for trading purposes or for speculation.

In January 2009, the Company executed an interest rate swap agreement to limit the Company's exposure to changes in interest rates. The Company has determined that this is not a hedging transaction and the change in the value for the three months ended March 31, 2009 of \$0.3

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million is included in interest expense in the Consolidated Condensed Statement of Income. The fair value at March 31, 2009 was \$0.2 million and is included in accrued liabilities in the Consolidated Condensed Balance Sheet. For further information regarding debt, see Note 12. At March 31, 2009, the Company did not have any other derivative instruments.

### 9. Fair Value Measurement

On September 15, 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157 which addresses standardizing the measurement of fair value for companies who are required to use a fair value measure for recognition or disclosure purposes. The FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company's adoption of the required portions of SFAS 157 as of October 1, 2008 did not have a material impact on the Company's financial position, results of operations and cash flows. In February 2008, the FASB issued Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157 (FSP 157-2)*, which delayed the required adoption of portions of SFAS 157 related to nonfinancial assets and nonfinancial liabilities, except for items recognized or disclosed at fair value on a recurring basis. Accordingly, the Company will adopt the provisions of SFAS 157 related to nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a nonrecurring basis in fiscal 2010. The Company is

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currently evaluating the impact, if any, of the adoption of FSP 157-2 on its financial position, results of operations or cash flows.

SFAS 157 establishes a fair value hierarchy to prioritize the inputs used in valuation techniques into three levels as follows:

- Level 1 Observable inputs that reflect quoted prices in active markets for identical assets or liabilities in active markets.
  
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
  
- Level 3 Valuations based on inputs that are unobservable and not corroborated by market data.

At March 31, 2009, the Company's financial assets utilizing Level 1 inputs include cash equivalents, money market funds the Company has elected to classify as restricted assets and equity securities with active markets. For these items, quoted current market prices are readily available.

During the quarter ended March 31, 2009, the Company entered into an interest rate swap agreement with \$105 million of notional value to hedge a portion of the risk of changes in the interest rate associated with amounts outstanding under an unsecured line of credit that expires in January 2010. The fair value of the swap agreement was determined using Level 2 inputs. The fair value at March 31, 2009, is based on the present value of expected future cash flows, inclusive of the risk of nonperformance, using a discount rate appropriate for the duration. Level 2 inputs also include a bank certificate of deposit classified as a short-term investment and restricted cash included in current assets.

The Company does not currently have any financial instruments utilizing Level 3 inputs.

The following presents information about the Company's fair value hierarchy for financial assets as of March 31, 2009:

N/A

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|                                   | Total<br>Measure<br>at<br>Fair<br>Value | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-----------------------------------|---|---|---|--|
|                                   | (in thousands)                          |   |   |  |
| <b>Assets:</b>                    |   |   |   |  |
| Money market funds                | \$ 93,498                               | \$ 92,476   | \$ 1,022  | \$   |
| Equity securities                 | 39,300                                  | 39,300  |   |  |
| Certificate of deposit            | 12,500                                  |   | 12,500  |  |
| <b>Total assets at fair value</b> | <b>\$ 145,298</b>                       | <b>\$ 131,776</b>   | <b>\$ 13,522</b>  | <b>\$</b>  |
| <b>Liabilities:</b>               |   |   |   |  |
| Interest rate swap                | \$ (209)                                | \$  | \$ (209)  | \$   |

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The following table summarizes the Company's assets and liabilities measured at fair value on a recurring basis presented in the Company's Consolidated Condensed Balance Sheet as of March 31, 2009:

|  | Total<br>Measure<br>at<br>Fair<br>Value | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|---|---|---|--|
|  | (in thousands)                          |   |   |  |
| <b>Assets:</b>                           |   |   |   |  |
| Cash equivalents                         | \$ 81,115                               | \$ 81,115   |   | \$   |
| Short-term investments                   | 12,500                                  |   | 12,500  |  |
| Investments                              | 39,300                                  | 39,300  |   |  |
| Other current assets                     | 3,022                                   | 2,000   | 1,022   |  |
| Other assets                             | 9,361                                   | 9,361   |   |  |
| Total assets measured at fair value      | \$ 145,298                              | \$ 131,776  | \$ 13,522   | \$   |
| <b>Liabilities:</b>                      |   |   |   |  |
| Other current liabilities                | \$ (209)                                |   | \$ (209)  | \$   |
| Total liabilities measured at fair value | \$ (209)                                |   | \$ (209)  | \$   |

The following information presents the supplemental fair value information about long-term fixed-rate debt at March 31, 2009 and September 30, 2008.

|   | March 31,<br>2009 | September 30,<br>2008 |
|---|-------------------|-----------------------|
|   | (in thousands)    |                       |
| Carrying value of long-term fixed-rate debt | \$ 175.0          | \$ 175.0              |
| Fair value of long-term fixed-rate debt     | \$ 204.7          | \$ 198.0              |

The fair value of the long-term fixed-rate debt was calculated using discounted future cash flows.

In February 2007, the FASB issued SFAS No. 159 which permits companies to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected would be reported in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. The Company did not elect the fair value option for any of its existing financial instruments other than those already measured at fair value. Therefore, the Company's adoption of SFAS

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No. 159 as of October 1, 2008 did not have an impact on the Company's financial position, results of operations or cash flows.

10. Cash Dividends

The \$0.05 cash dividend declared December 2, 2008, was paid March 2, 2009. On March 4, 2009, a cash dividend of \$0.05 per share was declared for shareholders of record on May 15, 2009, payable June 1, 2009.

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## 11. Stock-Based Compensation

The Company has one plan providing for common-stock based awards to employees and to non-employee Directors. The plan permits the granting of various types of awards including stock options and restricted stock 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 the grant date. Vesting requirements are determined by the Human Resources Committee of the Company's Board of Directors. Readers should refer to Note 5 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2008 for additional information related to stock-based compensation.

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.

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

|                      | Three Months Ended<br>March 31, |          | Six Months Ended<br>March 31, |          |
|----------------------|---------------------------------|----------|-------------------------------|----------|
|                      | 2009                            | 2008     | 2009                          | 2008     |
| Compensation expense |                                 |          |                               |          |
| Stock options        | \$ 1,677                        | \$ 1,468 | \$ 3,514                      | \$ 3,165 |
| Restricted stock     | 361                             | 185      | 724                           | 547      |
|                      | \$ 2,038                        | \$ 1,653 | \$ 4,238                      | \$ 3,712 |

## STOCK OPTIONS

The following summarizes the weighted-average assumptions utilized in determining the fair value of options granted during the six months ended March 31, 2009 and 2008:

|                         | 2009 | 2008 |
|-------------------------|------|------|
| Risk-free interest rate | 1.7% | 3.3% |

N/A

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|                           |       |       |
|---------------------------|-------|-------|
| Expected stock volatility | 43.4% | 31.1% |
| Dividend yield            | .9%   | .5%   |
| Expected term (in years)  | 5.8   | 4.8   |

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

*Expected Volatility Rate.* Expected volatility is based on the daily closing price of 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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A summary of stock option activity under the Plan for the three and six months ended March 31, 2009 is presented in the following tables:

| Options                                       | Shares<br>(in thousands) | Three Months Ended March 31, 2009         |  |   |
|---|--------------------------|---|--|---|
|   |                          | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value<br>(in thousands) |
| Outstanding at January 1, 2009                | 5,656                    | \$ 20.02                                  |  |   |
| Granted                                       |                          |   |  |   |
| Exercised                                     | (8)                      | 16.01                                     |  |   |
| Forfeited/Expired                             |                          |   |  |   |
| Outstanding at March 31, 2009                 | 5,648                    | \$ 20.21                                  | 5.93   | \$ 14,484   |
| Vested and expected to vest at March 31, 2009 | 5,588                    | \$ 20.16                                  | 5.89   | \$ 14,594   |
| Exercisable at March 31, 2009                 | 3,836                    | \$ 17.08                                  | 4.57   | \$ 21,808   |

| Options                        | Shares<br>(in thousands) | Six Months Ended<br>March 31, 2009        |   |
|--------------------------------|--------------------------|---|---|
|                                |                          | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Exercise<br>Price |
| Outstanding at October 1, 2008 | 4,819                    | \$ 20.02                                  |   |
| Granted                        | 865                      | 21.07                                     |   |
| Exercised                      | (31)                     | 13.74                                     |   |
| Forfeited/Expired              | (5)                      | 29.12                                     |   |
| Outstanding at March 31, 2009  | 5,648                    | \$ 20.21                                  |   |

The weighted-average fair value of options granted in the first quarter of fiscal 2009 was \$8.16. No options were granted in the second quarter of fiscal 2009.

The total intrinsic value of options exercised during the three and six months ended March 31, 2009 was \$0.1 million and \$0.4 million, respectively.

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As of March 31, 2009, the unrecognized compensation cost related to the stock options was \$14.8 million. That cost is expected to be recognized over a weighted-average period of 2.7 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.

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A summary of the status of the Company's restricted stock awards as of March 31, 2009 and changes during the six months then ended is presented below:

| Restricted Stock Awards           | Shares<br>(in thousands) | Six Months Ended<br>March 31, 2009 |  |
|-----------------------------------|--------------------------|------------------------------------|--|
|                                   |                          |                                    | Weighted-<br>Average<br>Grant-Date<br>Fair Value |
| Unvested at October 1,<br>Granted | 243                      | \$                                 | 29.27  |
| Vested                            | (66)                     |                                    | 29.52  |
| Forfeited                         |                          |                                    |  |
| Unvested at March 31,             | 177                      | \$                                 | 30.06  |

As of March 31, 2009, there was \$2.9 million of total unrecognized compensation cost related to restricted stock options granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.0 years.

## 12. Debt

At March 31, 2009, the Company had the following unsecured long-term debt outstanding (in thousands):

| Maturity Date                           | Interest Rate |    |         |
|---|---------------|----|---------|
| Fixed rate debt:                        |               |    |         |
| August 15, 2009                         | 5.91%         | \$ | 25,000  |
| August 15, 2012                         | 6.46%         |    | 75,000  |
| August 15, 2014                         | 6.56%         |    | 75,000  |
| Senior credit facility:                 |               |    |         |
| December 18, 2011                       | .85%-.92%     |    | 280,000 |
|   |               |    | 455,000 |
| Less long-term debt due within one year |               |    | 25,000  |
| Long-term debt                          |               | \$ | 430,000 |

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

The Company has an agreement with a multi-bank syndicate for a \$400 million senior unsecured credit facility which matures December 2011. While the Company has the option to borrow at the prime rate for maturities of less than 30 days, the Company anticipates that the majority of all of the borrowings over the life of the facility will accrue interest at a spread over the London Interbank Bank Offered Rate (LIBOR). The Company pays a commitment fee based on the unused balance of the facility. The spread over LIBOR as well as the commitment fee is determined according to a scale based on a ratio of the Company's total debt to total capitalization. The spread ranges from .30 percent to .45 percent over LIBOR depending on the ratios. At March 31, 2009, the spread on borrowings was .35 percent over LIBOR and the commitment fee was .075 percent per annum. At March 31, 2009, the Company had three letters of credit totaling \$25.9 million under the facility and had \$280 million borrowed against the facility with \$94.1 million available to borrow. The advances bear interest ranging from 0.85 percent to 0.92 percent.

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Short-term debt consists of a \$105 million unsecured line of credit that will mature January 2010. The Company closed on the agreement with a five-bank syndicate January 21, 2009. The Company anticipates that this loan will remain funded for the entire term and that all borrowings will accrue interest at a spread over 30 day LIBOR. The spread over LIBOR is determined according to the same scale of debt to total capitalization used in the Company's \$400 million facility which is described in the preceding paragraph. The spread over LIBOR for the new facility has increased to a range of 2 percent to 2.75 percent. At March 31, 2009, the spread on the borrowing was 2.25 percent over LIBOR. Simultaneous with the closing of this facility, the Company entered into an interest-rate swap with the same maturity and a notional amount of \$105 million. The Company believes that the swap will act to fix the annualized interest rate of the facility at approximately 3.17 percent assuming the spread remains at 2.25 percent over LIBOR.

The interest rate swap qualifies as a derivative and was not designated as a hedging instrument and as such, the Company has not applied hedge accounting. At the end of each period, the interest rate swap is recorded in the Consolidated Condensed Balance Sheet at fair value, either in other current assets or accrued liabilities, and any related gains or losses are recognized on the Company's Consolidated Condensed Statement of Income within interest expense. The fair value of the interest rate swap liability at March 31, 2009 was \$0.2 million and interest expense of \$0.3 million was recorded for the three months ended March 31, 2009.

Financial covenants in both facilities 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. Both facilities contain 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 March 31, 2009, the Company was in compliance with all debt covenants.

Additionally, as of March 31, 2009, the Company had unsecured letters of credit totaling \$6.3 million which were used to obtain surety bonds for the international operations.

13. Income Taxes

The Company's effective tax rate for the first six months of fiscal 2009 and 2008 was 40.8 percent and 36.9 percent, respectively. The Company's effective tax rate for the three months ended March 31, 2009 and 2008 was 45.6 percent and 37.3 percent, respectively. The effective rate differs from the U.S. federal statutory rate of 35.0 percent primarily due to state and foreign taxes.

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

14. Contingent Liabilities and Commitments

In conjunction with the Company's current drilling rig construction program, purchase commitments for equipment, parts and supplies of approximately \$234.6 million are outstanding at March 31, 2009.

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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.

The Company is contingently liable to sureties in respect of bonds issued by the sureties in connection with certain commitments entered into by the Company in the normal course of business. The Company has agreed to indemnify the sureties for any payments made by them in respect of such bonds.

15. Segment Information

The Company operates principally in the contract drilling industry. The Company's contract drilling business includes the following reportable operating segments: U.S. Land, Offshore, and International Land. The contract drilling operations consist mainly of contracting Company-owned drilling equipment primarily to major oil and gas exploration companies. The Company's primary international areas of operation include Venezuela, Colombia, Ecuador, Argentina and other South American countries. The International Land operations have similar services, have similar types of customers, operate in a consistent manner and have similar economic and regulatory characteristics. Therefore, the Company has aggregated its International Land operations into one reportable segment. Each reportable segment is a strategic business unit which is managed separately. Other includes non-reportable operating segments.

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.

Segment operating income 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. 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



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costs that may affect the Company's operating performance in future periods.

Due to the continued growth of the drilling segments over the past few years, the Company re-evaluated its reportable segments. With the growth of the drilling segments, the Real Estate segment has become a smaller percentage of total segment operating income. In the evaluation of segment reporting, the Company determined that the total of external revenues reported by the three reportable operating segments, U.S. Land, Offshore and International Land, comprised more than 75 percent of total consolidated revenue. As a result, the Real Estate segment previously shown as a reportable segment has been included with all other non-reportable business segments. Revenues included in all other consist primarily of rental income. The three and six months ended March 31, 2008 have been restated to reflect this change.

Summarized financial information of the Company's reportable segments for the six months ended March 31, 2009, and 2008, is shown in the following tables:

| (in thousands)        | External Sales | Inter-Segment | Total Sales  | Segment Operating Income (Loss) |
|-----------------------|----------------|---------------|--------------|---------------------------------|
| <b>March 31, 2009</b> |                |               |              |                                 |
| Contract Drilling:    |                |               |              |                                 |
| U.S. Land             | \$ 889,718     | \$            | \$ 889,718   | \$ 386,978                      |
| Offshore              | 101,819        |               | 101,819      | 30,547                          |
| International Land    | 147,007        |               | 147,007      | 7,346                           |
|                       | 1,138,544      |               | 1,138,544    | 424,871                         |
| Other                 | 5,510          | 441           | 5,951        | (2,352)                         |
|                       | 1,144,054      | 441           | 1,144,495    | 422,519                         |
| Eliminations          |                | (441)         | (441)        |                                 |
| Total                 | \$ 1,144,054   | \$            | \$ 1,144,054 | \$ 422,519                      |

| (in thousands)        | External Sales | Inter-Segment | Total Sales | Segment Operating Income |
|-----------------------|----------------|---------------|-------------|--------------------------|
| <b>March 31, 2008</b> |                |               |             |                          |
| Contract Drilling:    |                |               |             |                          |
| U.S. Land             | \$ 712,907     | \$            | \$ 712,907  | \$ 287,581               |
| Offshore              | 57,070         |               | 57,070      | 7,717                    |
| International Land    | 154,359        |               | 154,359     | 33,908                   |
|                       | 924,336        |               | 924,336     | 329,206                  |
| Other                 | 5,971          | 437           | 6,408       | 2,825                    |
|                       | 930,307        | 437           | 930,744     | 332,031                  |
| Eliminations          |                | (437)         | (437)       |                          |
| Total                 | \$ 930,307     | \$            | \$ 930,307  | \$ 332,031               |



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Summarized financial information of the Company's reportable segments for the three months ended March 31, 2009, and 2008, is shown in the following tables:

| (in thousands)        | External<br>Sales | Inter-<br>Segment | Total<br>Sales | Segment<br>Operating<br>Income<br>(Loss) |
|-----------------------|-------------------|-------------------|----------------|--|
| <b>March 31, 2009</b> |                   |                   |                |  |
| Contract Drilling:    |                   |                   |                |  |
| U.S. Land             | \$ 414,514        | \$                | \$ 414,514     | \$ 192,930                               |
| Offshore              | 51,331            |                   | 51,331         | 15,837                                   |
| International Land    | 51,829            |                   | 51,829         | (15,282)                                 |
|                       | 517,674           |                   | 517,674        | 193,485                                  |
| Other                 | 2,626             | 218               | 2,844          | (1,491)                                  |
|                       | 520,300           | 218               | 520,518        | 191,994                                  |
| Eliminations          |                   | (218)             | (218)          |  |
| Total                 | \$ 520,300        | \$                | \$ 520,300     | \$ 191,994                               |

| (in thousands)        | External<br>Sales | Inter-<br>Segment | Total<br>Sales | Segment<br>Operating<br>Income |
|-----------------------|-------------------|-------------------|----------------|--------------------------------|
| <b>March 31, 2008</b> |                   |                   |                |                                |
| Contract Drilling:    |                   |                   |                |                                |
| U.S. Land             | \$ 365,263        | \$                | \$ 365,263     | \$ 143,740                     |
| Offshore              | 29,789            |                   | 29,789         | 3,603                          |
| International Land    | 75,757            |                   | 75,757         | 12,752                         |
|                       | 470,809           |                   | 470,809        | 160,095                        |
| Other                 | 2,835             | 224               | 3,059          | 1,301                          |
|                       | 473,644           | 224               | 473,868        | 161,396                        |
| Eliminations          |                   | (224)             | (224)          |                                |
| Total                 | \$ 473,644        | \$                | \$ 473,644     | \$ 161,396                     |

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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<br>March 31, |            | Six Months Ended<br>March 31, |            |
|---|---------------------------------|------------|-------------------------------|------------|
|   | 2009                            | 2008       | 2009                          | 2008       |
|   | (in thousands)                  |            |                               |            |
| Segment operating income  | \$ 191,994                      | \$ 161,396 | \$ 422,519                    | \$ 332,031 |
| Gain from involuntary conversion of long-lived assets                 |                                 |            | 277                           | 4,810      |
| Income from asset sales   | 2,055                           | 1,946      | 2,969                         | 2,788      |
| Corporate general and administrative costs and corporate depreciation | (10,711)                        | (7,672)    | (20,007)                      | (15,326)   |
| Operating income  | 183,338                         | 155,670    | 405,758                       | 324,303    |
| Other income (expense):   |                                 |            |                               |            |
| Interest and dividend income  | 2,150                           | 1,220      | 3,936                         | 2,335      |
| Interest expense  | (2,554)                         | (4,773)    | (6,254)                       | (9,604)    |
| Gain on sale of investment securities                                 |                                 | 5,476      |                               | 5,606      |
| Other   | (28)                            | 180        | 100                           | (436)      |
| Total other income (expense)  | (432)                           | 2,103      | (2,218)                       | (2,099)    |
| Income before income taxes and equity in income of affiliate          | \$ 182,906                      | \$ 157,773 | \$ 403,540                    | \$ 322,204 |

|                                      | March 31,<br>2009 | September 30,<br>2008 |
|--------------------------------------|-------------------|-----------------------|
|                                      | (in thousands)    |                       |
| Total Assets                         |                   |                       |
| U.S. Land                            | \$ 3,011,147      | \$ 2,660,232          |
| Offshore                             | 151,052           | 152,497               |
| International Land                   | 431,626           | 368,659               |
| Other                                | 33,380            | 35,285                |
|                                      | 3,627,205         | 3,216,673             |
| Investments and Corporate Operations | 352,611           | 371,372               |
| Total                                | \$ 3,979,816      | \$ 3,588,045          |

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

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

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

|                    | Three Months Ended<br>March 31, |            | Six Months Ended<br>March 31, |            |
|--------------------|---------------------------------|------------|-------------------------------|------------|
|                    | 2009                            | 2008       | 2009                          | 2008       |
|                    | (in thousands)                  |            |                               |            |
| Operating revenues |                                 |            |                               |            |
| United States      | \$ 458,319                      | \$ 396,899 | \$ 975,671                    | \$ 774,451 |
| Venezuela          |                                 | 38,050     | 42,949                        | 79,705     |
| Colombia           | 23,596                          | 8,828      | 43,054                        | 14,798     |
| Ecuador            | 13,781                          | 14,225     | 26,773                        | 33,517     |
| Other Foreign      | 24,604                          | 15,642     | 55,607                        | 27,836     |
| Total              | \$ 520,300                      | \$ 473,644 | \$ 1,144,054                  | \$ 930,307 |

## 16. Pensions and Other Post-retirement Benefits

The following provides information at March 31, 2009 and 2008 related to the Company-sponsored domestic defined benefit pension plan.

## Components of Net Periodic Benefit Cost

|                                | Three Months Ended<br>March 31, |          | Six Months Ended<br>March 31, |          |
|--------------------------------|---------------------------------|----------|-------------------------------|----------|
|                                | 2009                            | 2008     | 2009                          | 2008     |
|                                | (in thousands)                  |          |                               |          |
| Interest Cost                  | \$ 1,217                        | \$ 1,189 | \$ 2,434                      | \$ 2,379 |
| Expected return on plan assets | (1,147)                         | (1,458)  | (2,294)                       | (2,916)  |
| Recognized net actuarial loss  |                                 | (3)      |                               | (6)      |
| Net pension expense            | \$ 70                           | \$ (272) | \$ 140                        | \$ (543) |

## Employer Contributions

The Company intends to contribute no less frequently than annually an amount at least equal to the minimum contribution required by law. However, the Company could make discretionary contributions to fund distributions in lieu of liquidating pension assets. The Company estimates contributions could be at least \$5.0 million in fiscal 2009. However, due to the decline in the fair value of pension plan assets during

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2008 and the current adverse conditions in the equity, debt and global markets, it is possible that contributions will be greater than estimated. For the period October 1, 2008 through April 30, 2009, the Company has not made any contributions to the Pension Plan.

### Foreign Plan

The Company maintains an unfunded pension plan in one of the international subsidiaries. Pension expense was approximately \$90,000 and \$92,000 for the three months ended March 31, 2009 and 2008, respectively. Pension expense was approximately \$180,000 and \$131,000 for the six months ended March 31, 2009 and 2008, respectively.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

17. Risk Factors

International operations are subject to certain political, economic and other uncertainties not encountered in U.S. operations, including increased risks of terrorism, kidnapping of employees, expropriation of equipment as well as expropriation of a particular oil company operator's property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of the Company's operations or on the ability of the Company to continue operations in certain areas. For additional information regarding risks in Venezuela, refer to Note 3.

18. Gain Contingencies

During the first quarter of fiscal 2009, the Company settled the claim on U.S. Land Rig 178 that experienced a fire in August 2007. The Company received \$0.3 million as final payment and the proceeds were recorded as a gain in the Consolidated Statement of Income.

The Company expects to receive additional insurance proceeds in connection with the loss of Rig 201 from Hurricane Katrina in August 2005 of less than \$0.3 million during fiscal 2009.

19. Recently Issued Accounting Standards

In November 2008, the FASB ratified EITF, Issue No. 08-6, *Equity-Method Investment Accounting*. EITF 08-6 concludes that the cost basis of a new equity-method investment would be determined using a cost-accumulation mode, which would continue the practice of including transaction costs in the cost of investment and would exclude the value of contingent consideration. Equity-method investment should be subject to other-than-temporary impairment analysis. It also requires that a gain or loss be recognized on the portion of the investor's ownership sold. EITF 8-6 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact the adoption of EITF 08-6 may have on the Consolidated Financial Statements.

In June 2008, the FASB issued Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, to clarify that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities. An entity must include participating securities in its

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calculation of basic and diluted earnings per share pursuant to the two-class method pursuant to SFAS No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating FSP EITF 03-6-1 to determine the impact, if any, on the Consolidated Financial Statements.



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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

In April 2008, the FASB issued FSP SFAS No. 142-3, *Determining the Useful Life of Intangible Assets* (FSP SFAS 142-3). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. This FSP must be applied prospectively to intangible assets acquired after the effective date. Accordingly, the Company will adopt FSP SFAS 142-3 in fiscal year 2010.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (the FSP). The FSP amends SFAS No. 157, *Fair Value Measurements*, to delay the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). For items within its scope, the FSP defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the FSP to determine the impact, if any, on the Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. Both of these standards are effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS No. 141(R) will be applied prospectively to business combinations occurring after the effective date. Earlier application is prohibited. The Company is currently evaluating the potential impact of adopting SFAS No. 160 but does not expect its adoption to have a significant impact on the Consolidated Financial Statement.

On October 1, 2008, the Company adopted EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* ( EITF 06-11 ). EITF 06-11 requires companies to recognize a realized income tax benefit associated with dividends or dividend equivalents paid on nonvested equity-classified employee share-based payment awards that are charged to retained earnings as an increase to additional paid-in capital. The adoption of EITF 06-11 did not have a material impact on the Company's financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. The FSP amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* to require disclosure about fair value of financial instruments in interim financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company will include the disclosures required under this FSP beginning in the June 30, 2009 Consolidated Condensed Financial Statements. The adoption of FSP FAS 107-1 and APB 28-1 will have no impact on the Company's consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. The Company has determined that only the provisions of FAS 124-2 are currently applicable. FSP No. 124-2 expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. It is effective for interim and annual periods ending after June 15, 2009 and will be adopted by the Company beginning in the third quarter of fiscal 2009. Management does not

currently believe the adoption of this accounting pronouncement will have a material impact on the Company's financial condition or operating results.

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

March 31, 2009

**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 the Company's 2008 Annual Report on Form 10-K. 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, early termination of drilling contracts, forfeiture of early termination payments under fixed term contracts due to sustained unacceptable performance, unsuccessful collection of receivables, including Venezuelan receivables, inability to procure key rig components, failure to timely deliver rigs within applicable grace periods, disruption to or cessation of business of the Company's limited source vendors or fabricators, currency exchange losses, deterioration of credit markets, changes in general economic and political conditions, adverse weather conditions including hurricanes, rapid or unexpected changes in technologies, and uncertain business conditions that affect the Company's businesses. Accordingly, past results and trends should not be used by investors to anticipate future results or trends. The Company's risk factors are more fully described in the Company's 2008 Annual Report on Form 10-K and elsewhere in this Form 10-Q.

With the exception of historical information, the matters discussed in Management's Discussion & Analysis of Financial Condition and Results of Operations include forward-looking statements. These forward-looking statements are based on various assumptions. The Company cautions that, while it believes such assumptions to be reasonable and makes them in good faith, assumptions about future events and conditions almost always vary from actual results. The differences between good faith assumptions 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**

**Three Months Ended March 31, 2009 vs. Three Months Ended March 31, 2008**

The Company reported net income of \$103.7 million (\$.98 per diluted share) from operating revenues of \$520.3 million for the second quarter ended March 31, 2009, compared with net income of \$102.1 million (\$0.96 per diluted share) from operating revenues of \$473.6 million for the second quarter of fiscal year 2008. Net income for the second quarter of fiscal 2009 includes approximately \$1.2 million (\$0.01 per diluted share) of after-tax gains from the sale of assets. Net income for the second quarter of fiscal 2008 includes approximately \$3.3 million (\$0.03 per diluted share) of after-tax gains from the sale of available-for-sale securities and approximately \$1.2 million (\$0.01 per diluted share) of after-tax gains from the sales of assets.

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The following tables summarize operations by business segment for the three months ended March 31, 2009 and 2008. Operating statistics in the tables exclude the effects of offshore platform and international management contracts, and do not include reimbursements of out-of-pocket expenses in revenue, expense and margin per day calculations. Per day calculations for international operations also exclude gains and losses from translation of foreign currency transactions. Segment operating income is described in detail in Note 15 to the financial statements.

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

March 31, 2009

|   | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2009                         | 2008       |
| (in thousands, except days and per day amounts) |                              |            |
| <b>U.S. LAND OPERATIONS</b>                     |                              |            |
| Revenues  | \$ 414,514                   | \$ 365,263 |
| Direct operating expenses                       | 172,033                      | 181,757    |
| General and administrative expense              | 4,274                        | 4,257      |
| Depreciation                                    | 45,277                       | 35,509     |
| Segment operating income                        | \$ 192,930                   | \$ 143,740 |
| Revenue days                                    | 12,529                       | 14,272     |
| Average rig revenue per day                     | \$ 31,384                    | \$ 24,415  |
| Average rig expense per day                     | \$ 12,030                    | \$ 11,557  |
| Average rig margin per day                      | \$ 19,354                    | \$ 12,858  |
| Rig utilization                                 | 72%                          | 94%        |

U.S. LAND segment operating income increased to \$192.9 million for the second quarter of fiscal 2009 compared to \$143.7 million in the same period of fiscal 2008. Revenues were \$414.5 million and \$365.3 million in the second quarter of fiscal 2009 and 2008, respectively. Included in U.S. land revenues for the three months ended March 31, 2009 and 2008 are reimbursements for out-of-pocket expenses of \$21.3 million and \$16.8 million, respectively. Also included in U.S. land revenues for the second quarter of fiscal 2009 is approximately \$81.5 million related to early termination fees and penalties.

The average revenue per day for the second quarter of fiscal 2009 compared to the second quarter of fiscal 2008 increased \$6,969 of which \$6,508 is attributable to the early termination related revenue. The remaining increase of \$461 is a result of higher dayrates for new rigs added since the second quarter of fiscal 2008 compared to dayrates on existing rigs working at March 31, 2008. The increase in average rig expense per day for the second quarter of fiscal 2009 compared to the second quarter of fiscal 2008 is primarily due to increased wages and bonuses in the field that occurred during the third and fourth quarters of fiscal 2008 as a result of market demand and fixed costs that are incurred regardless if the rig is working or stacked.

U.S. land rig utilization was 72 percent and 94 percent for the comparable quarters. U.S. land rig activity days for the second quarter of fiscal 2009 were 12,529 compared with 14,272 for the same period of fiscal 2008, with an average of 139.2 and 156.8 rigs working during the second quarter of fiscal 2009 and 2008, respectively. The decrease in rig days and average rigs working is attributable to early terminations and other stacked rigs.

The Company continues to receive early termination notices from operators and expects additional U.S. land rigs to become idle. Fixed-term contracts customarily provide for termination at the election of the customer, with an early termination payment to be paid to the Company if a contract is terminated prior to the expiration of the fixed term. In most instances contracts provide for additional payments for demobilization.

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The economic slowdown, including the decrease in oil and gas prices and deterioration in the credit markets, has had an effect on customer spending. As a result, some operators are not renewing contracts. At March 31, 2009, 83 rigs were idle as a result of operators not extending contracts or exercising early termination options with the number increasing to 101 at April 30, 2009. At April 30, 2009, the Company had 87 rigs with term contracts. The Company had 17 rigs continuing to work in the spot market at April 30, 2009, all of which are at risk of being idled.

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

March 31, 2009

|                                    | <b>Three Months Ended March 31,</b>                    |             |
|------------------------------------|--|-------------|
|                                    | <b>2009</b>  | <b>2008</b> |
|                                    | <b>(in thousands, except days and per day amounts)</b> |             |
| <b><u>OFFSHORE OPERATIONS</u></b>  |  |             |
| Revenues                           | \$ 51,331  | \$ 29,789   |
| Direct operating expenses          | 31,403   | 21,918      |
| General and administrative expense | 1,064  | 1,114       |
| Depreciation                       | 3,027  | 3,154       |
| Segment operating income           | \$ 15,837  | \$ 3,603    |
| Revenue days                       | 796  | 514         |
| Average rig revenue per day        | \$ 48,562  | \$ 41,209   |
| Average rig expense per day        | \$ 26,232  | \$ 29,144   |
| Average rig margin per day         | \$ 22,330  | \$ 12,065   |
| Rig utilization                    | 98%  | 65%         |

OFFSHORE revenues include reimbursements for out-of-pocket expenses of \$6.8 million and \$3.3 million for the three months ended March 31, 2009 and 2008, respectively.

Segment operating income increased in the second quarter of fiscal 2009 compared to the second quarter of fiscal 2008, primarily as a result of three rigs working in the second quarter of fiscal 2009 that were not working in the second quarter of fiscal 2008. One of the rigs working in fiscal 2009 is located in Trinidad. The increased rig activity also increased revenue days for the two comparable quarters.

At March 31, 2009, the Company had all of its nine platform rigs working.

The Offshore segment has also been affected by the economic slowdown. The Company currently expects three of its nine offshore rigs to be released from their current contracts during the third quarter and those rigs could remain idle through the remainder of fiscal 2009.

|   | <b>Three Months Ended March 31,</b>                    |             |
|---|--|-------------|
|   | <b>2009</b>  | <b>2008</b> |
|   | <b>(in thousands, except days and per day amounts)</b> |             |
| <b><u>INTERNATIONAL LAND OPERATIONS</u></b> |  |             |
| Revenues                                    | \$ 51,829  | \$ 75,757   |
| Direct operating expenses                   | 59,787   | 50,129      |
| General and administrative expense          | 784  | 1,300       |
| Depreciation                                | 6,540  | 11,576      |
| Segment operating income (loss)             | \$ (15,282)  | \$ 12,752   |
| Revenue days                                | 2,050  | 1,795       |

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|                             |    |         |    |        |
|-----------------------------|----|---------|----|--------|
| Average rig revenue per day | \$ | 23,397  | \$ | 39,695 |
| Average rig expense per day | \$ | 27,483  | \$ | 25,299 |
| Average rig margin per day  | \$ | (4,086) | \$ | 14,396 |
| Rig utilization             |    | 81%     |    | 73%    |



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

March 31, 2009

INTERNATIONAL LAND segment operating loss for the second quarter of fiscal 2009 was \$(15.3) million, compared to operating income of \$12.8 million in the same period of fiscal 2008. Rig utilization for international land operations was 81 percent for the second quarter of fiscal 2009, compared with 73 percent for the second quarter of fiscal 2008. During the current quarter, an average of 22.8 rigs worked compared to an average of 19.7 rigs in the second quarter of fiscal 2008. During late fiscal 2008 and during the first six months of fiscal 2009, three new FlexRigs began work and an additional three have been completed and are expected to begin work in the current fiscal year. One additional FlexRig has been completed and may be directed to an international location.

As further discussed in Note 3 to the Consolidated Condensed Financial Statements, the Company determined that as of the beginning of the second quarter of fiscal 2009 and forward, the customer in Venezuela, PDVSA, no longer meets the revenue recognition criteria as collectability is uncertain. As a result of this change, revenue and average revenue per day decreased in the second quarter of fiscal 2009 compared to fiscal 2008.

Revenues in the second quarter of fiscal 2009 decreased \$23.9 million compared to the second quarter of fiscal 2008 with Venezuela contributing \$38.1 million to the decrease. Excluding the revenue recognition change in Venezuela, the increase in utilization of existing rigs and the addition of the new FlexRigs contributed to international land revenue increasing. Included in international land revenues for the three months ended March 31, 2009 and 2008 are reimbursements for out-of-pocket expenses of \$3.9 million and \$4.5 million, respectively.

Depreciation decreased to \$6.5 million for the second quarter of fiscal 2009 compared to \$11.6 million for the second quarter of fiscal 2008. Depreciation and operating income for the quarter ended March 31, 2008 were negatively impacted by an adjustment of approximately \$5.9 million, related to prior years' depreciation.

Subsequent to the end of the second quarter of fiscal 2009, one international land rig was released by an operator and was idle at April 30, 2009. Additionally, the ability to collect accounts receivables in U.S. dollars from PDVSA, has deteriorated to the point that the Company has decided to discontinue work as contracts expire. At March 31, 2009, the receivable from PDVSA was approximately \$73.6 million. All of the Company's eleven rigs were active in Venezuela during the first quarter; however, by the end of the second quarter of fiscal 2009, seven of the rigs were active. It is expected that further cessations will idle a total of seven rigs in that country by the end of April 2009. The Company will continue these and other efforts until satisfactory payments have been received. If payments are not received, the Company expects the remaining four rigs will be idle by the end of August 2009.

**RESEARCH AND DEVELOPMENT**

For the three months ended March 31, 2009, the Company incurred \$2.2 million research and development expenses related to ongoing development of a Rotary Steerable System. The Company anticipates research and development expenses of up to approximately \$2.5 million in the third quarter of fiscal 2009.

**OTHER**

General and administrative expenses increased to \$16.4 million in the second quarter of fiscal 2009 from \$14.1 million in the second quarter of fiscal 2008. The \$2.3 million increase is primarily due to additions in employee count during fiscal 2008 that has resulted in an increase in employee compensation, including taxes and benefits, compared to the same period in fiscal 2008. Also increasing in the second quarter of fiscal 2009 were professional services associated with the FCPA investigation discussed further in Part II, Item 1, Legal Proceedings.

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

March 31, 2009

Interest expense was \$2.6 million and \$4.8 million in the second quarter of fiscal 2009 and 2008, respectively. Capitalized interest, all attributable to the Company's rig construction, was \$1.7 million and \$1.2 million for the three months ended March 31, 2009 and 2008, respectively. Interest expense before capitalized interest decreased \$1.7 million during the second quarter of fiscal 2009 compared to the second quarter of fiscal 2008 primarily due to reduced interest rates on borrowings under the credit facility.

Income from the sale of investment securities was \$5.5 million, \$3.3 million after-tax (\$0.03 per diluted share) in the second quarter of fiscal 2008. There were no sales of investment securities in the second quarter of fiscal 2009.

**Six Months Ended March 31, 2009 vs. Six Months Ended March 31, 2008**

The Company reported net income of \$249.0 million (\$2.34 per diluted share) from operating revenues of \$1,144.1 million for the six months ended March 31, 2009, compared with net income of \$209.9 million (\$1.98 per diluted share) from operating revenues of \$930.3 million for the first six months of fiscal year 2008. Included in net income are after-tax gains from the sale of assets of approximately \$1.7 million (\$0.02 per diluted share) for the six months ended March 31, 2009, compared to approximately \$1.8 million (\$0.01 per diluted share) for the six months ended March 31, 2008. Net income for the first six months of fiscal 2008 includes \$3.4 million (\$0.03 per diluted share) of after-tax gains from the sale of available-for-sale securities. The proceeds from the sale of securities in the six months ending March 31, 2008 were used to fund capital expenditures. Also included in net income for fiscal 2008 is approximately \$3.1 million (\$0.03 per diluted share) of after-tax gains from involuntary conversion of long-lived assets compared to approximately \$0.2 million of after-tax gains from involuntary conversion of long-lived assets in fiscal 2009.

The following tables summarize operations by business segment for the six months ended March 31, 2009 and 2008. Operating statistics in the tables exclude the effects of offshore platform and international management contracts, and do not include reimbursements of out-of-pocket expenses in revenue, expense and margin per day calculations. Per day calculations for international operations also exclude gains and losses from translation of foreign currency transactions. Segment operating income is described in detail in Note 15 to the financial statements.

|                                    | Six Months Ended March 31,                      |            |
|------------------------------------|---|------------|
|                                    | 2009  | 2008       |
|                                    | (in thousands, except days and per day amounts) |            |
| <b><u>U.S. LAND OPERATIONS</u></b> |   |            |
| Revenues                           | \$ 889,718                                      | \$ 712,907 |
| Direct operating expenses          | 405,339   | 347,322    |
| General and administrative expense | 8,701   | 8,651      |
| Depreciation                       | 88,700  | 69,353     |
| Segment operating income           | \$ 386,978                                      | \$ 287,581 |
| Revenue days                       | 28,851  | 28,159     |
| Average rig revenue per day        | \$ 28,941                                       | \$ 24,213  |
| Average rig expense per day        | \$ 12,152                                       | \$ 11,231  |

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|                            |    |        |    |        |
|----------------------------|----|--------|----|--------|
| Average rig margin per day | \$ | 16,789 | \$ | 12,982 |
| Rig utilization            |    | 83%    |    | 94%    |

U.S. LAND segment operating income in the first six months of fiscal 2009 increased to \$387.0 million from \$287.6 million in the first six months of fiscal 2008.

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

March 31, 2009

Revenues were \$889.7 million in the first six months of fiscal 2009, compared with \$712.9 million in the same period of fiscal 2008. Included in U.S. land revenues for the six months ended March 31, 2009 and March 31, 2008 are reimbursements for out-of-pocket expenses of \$54.7 million and \$31.1 million, respectively. Also included in U.S. land revenues for fiscal 2009 is approximately \$100 million related to early termination fees and penalties.

The average revenue per day for the six months ended March 31, 2009 compared to the six months ended March 31, 2008 increased \$4,728 of which \$3,465 is attributable to the early termination related revenue. The remaining increase of \$1,263 is due to higher dayrates for new rigs added since the second quarter of fiscal 2008 compared to dayrates on existing rigs working at March 31, 2008. The increase in average rig expense per day for the first six months of fiscal 2009 compared to the same period of fiscal 2008 is primarily due to increased wages and bonuses in the field that occurred during fiscal 2008 as a result of market demand.

For the six months ended March 31, 2009, depreciation increased \$19.3 million from the six months ended March 31, 2008. The increase is due to the increase in available rigs as new FlexRigs were placed in service.

U.S. land rig revenue days for the first six months of 2009 were 28,851 compared with 28,159 for the same period of 2008, with an average of 158.5 and 153.9 rigs working during the first six months of fiscal 2009 and 2008, respectively.

|   | Six Months Ended March 31, |           |
|---|----------------------------|-----------|
|   | 2009                       | 2008      |
| (in thousands, except days and per day amounts) |                            |           |
| <b>OFFSHORE OPERATIONS</b>                      |                            |           |
| Revenues  | \$ 101,819                 | \$ 57,070 |
| Direct operating expenses                       | 63,165                     | 41,129    |
| General and administrative expense              | 2,116                      | 2,212     |
| Depreciation                                    | 5,991                      | 6,012     |
| Segment operating income                        | \$ 30,547                  | \$ 7,717  |
| Revenue days                                    | 1,531                      | 974       |
| Average rig revenue per day                     | \$ 50,720                  | \$ 41,503 |
| Average rig expense per day                     | \$ 27,786                  | \$ 28,207 |
| Average rig margin per day                      | \$ 22,934                  | \$ 13,296 |
| Rig utilization                                 | 94%                        | 60%       |

U.S. OFFSHORE operating revenues, direct operating expenses and segment operating income increased due to higher activity. Included in offshore revenues for the six months ended March 31, 2009 and March 31, 2008 are reimbursements for out-of-pocket expenses of \$12.2 million and \$6.2 million, respectively. Segment operating income increased to \$30.5 million in the first six months of fiscal 2009 from \$7.7 million in the first six months of fiscal 2008. Rig days were 1,531 and 974 for the first six months of fiscal 2009 and 2008, respectively. The increase in days is primarily due to three rigs preparing for work under new contracts in fiscal 2008 that were working during the six months ended March 31, 2009. One of the rigs working in fiscal 2009 is located in Trinidad. The increased rig activity also increased revenue days for the two

comparable periods.

At March 31, 2009, the Company had all of its nine platform rigs working.

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

March 31, 2009

|                                      | Six Months Ended March 31,                      |            |
|--------------------------------------|---|------------|
|                                      | 2009  | 2008       |
|                                      | (in thousands, except days and per day amounts) |            |
| <b>INTERNATIONAL LAND OPERATIONS</b> |   |            |
| Revenues                             | \$ 147,007                                      | \$ 154,359 |
| Direct operating expenses            | 125,435   | 100,911    |
| General and administrative expense   | 1,480   | 2,238      |
| Depreciation                         | 12,746  | 17,302     |
| Segment operating income             | \$ 7,346  | \$ 33,908  |
| Revenue days                         | 4,433   | 3,776      |
| Average rig revenue per day          | \$ 30,568                                       | \$ 36,981  |
| Average rig expense per day          | \$ 25,782                                       | \$ 22,704  |
| Average rig margin per day           | \$ 4,786  | \$ 14,277  |
| Rig utilization                      | 89%   | 77%        |

INTERNATIONAL LAND segment operating income in the first six months of fiscal 2009 was \$7.3 million, compared to \$33.9 million in the same period of 2008.

As further discussed in Note 3 to the Consolidated Condensed Financial Statements, the Company determined that as of the beginning of the second quarter of fiscal 2009 and forward, the customer in Venezuela, PDVSA, no longer meets the revenue recognition criteria as collectability is uncertain. As a result of this change, revenue and average revenue per day decreased in the first six months of fiscal 2009 compared to the same period of fiscal 2008.

Rig utilization for international land operations averaged 89 percent for the first six months of fiscal 2009, compared with 77 percent for the first six months of fiscal 2008. An average of 24.5 rigs worked during the first six months of fiscal 2009, compared to 20.7 rigs in the first six months of fiscal 2008. International revenues were \$147.0 million and \$154.4 million in the first six months of fiscal 2009 and 2008, respectively. The decrease in revenue of \$7.4 million is comprised of a decrease in Venezuela of \$36.8, of which \$38.1 was due to the change in revenue recognition, and an increase in other locations of \$29.4 million. The increase is primarily attributable to three new FlexRigs working in international locations during fiscal 2009. Included in international land revenues for the six months ended March 31, 2009 and 2008 are reimbursements for out-of-pocket expenses of \$11.5 million and \$14.7 million, respectively.

Depreciation decreased for the six months ended March 31, 2009 compared to the same period ending March 31, 2008 because the quarter ended March 31, 2008 included an adjustment of approximately \$5.9 million related to prior years' depreciation.

**OTHER**

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General and administrative expenses increased to \$31.6 million in the first six months of fiscal 2009 from \$28.0 million in the first six months of fiscal 2008. The \$3.6 million increase is primarily attributable to additions in employee count during fiscal 2008 that has resulted in an increase in employee compensation, including taxes and benefits, compared to the same period in 2008. Also increasing in fiscal 2009 were professional services associated with the FCPA investigation.



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

March 31, 2009

Interest expense was \$6.3 million and \$9.6 million for the six months ended March 31, 2009 and 2008, respectively. Although advances on the credit facility to fund capital expenditures increased, interest expense before capitalized interest decreased \$3.0 million for the six months ended March 31, 2009, compared to the six months ended March 31, 2008 due to reduced interest rates. During these same comparable periods, capitalized interest related to the Company's rig construction increased \$0.4 million.

In the first six months of fiscal 2008, income from the sale of investment securities was \$5.6 million, \$3.4 million after tax (\$0.03 per diluted share) from the sale of available-for-sale investments. There have been no sales of available-for-sale investments in fiscal 2009.

In the first six months of fiscal 2008, the Company recorded income of approximately \$4.8 million from involuntary conversion of long-lived assets as a result of insurance proceeds on Rig 178 that was lost in a well blowout fire in the fourth quarter of fiscal 2007. The Company settled the claim in fiscal 2009 and recorded \$0.3 million as a gain in the Consolidated Condensed Statement of Income.

**LIQUIDITY AND CAPITAL RESOURCES**

## Liquidity

Cash and cash equivalents increased to \$126.4 million at March 31, 2009 from \$121.5 million at September 30, 2008. The following table provides a summary of cash flows for the six-month period ended March 31, (in thousands):

|                                       | 2009       | 2008       |
|---------------------------------------|------------|------------|
| Net Cash provided (used) by:          |            |            |
| Operating activities                  | \$ 490,488 | \$ 263,255 |
| Investing activities                  | (533,790)  | (301,774)  |
| Financing activities                  | 48,167     | 40,040     |
| Increase in cash and cash equivalents | \$ 4,865   | \$ 1,521   |

## Operating activities

Cash flows from operating activities were \$490.5 million for the six months ended March 31, 2009 compared to \$263.3 million the same period ended March 31, 2008. The increase in cash provided from operating activities is primarily due to the net effect of increases in net income, deferred income tax expense and depreciation and changes during the comparable six month periods in accounts payable. Depreciation increased to \$111.9 million for the six months ended March 31, 2009 compared to \$95.9 million during the six months ended March 31, 2008 as a result of

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additional rigs being placed into service during fiscal 2008 and 2009. Accounts payable increased as a result of increased capital spending associated with the construction of FlexRigs.

### Investing activities

Capital expenditures increased \$204.2 million primarily attributable to the increased cadence in building new FlexRigs. Five additional FlexRigs were completed in the six months ended March 31, 2009 compared to the same period of fiscal 2008. Proceeds from involuntary conversion of long-lived assets decreased \$8.2 million as insurance claims from 2005 and 2007 were collected during fiscal 2008. Proceeds from the sale of assets and investments decreased \$7.1 million. In fiscal 2009, \$12.5 million was invested in short-term investments.

### Financing activities

The Company's net proceeds from long-term debt and notes payable totaled \$58.3 million in the first six months of fiscal 2009 compared to \$35.0 million in the first six months of fiscal 2008. Comparing the six months ended March 31, 2009 to the same period at March 31, 2008, the Company had a decrease in proceeds from the exercise of stock options and the excess tax benefit from stock-based compensation of \$7.9 million and \$6.1 million, respectively and dividends increased \$1.2 million.

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

March 31, 2009

## Other Liquidity

Funds generated by operating activities, available cash and cash equivalents, and credit facilities continue to be the Company's significant sources of liquidity. The Company believes these sources of liquidity will be sufficient to sustain operations and finance estimated capital expenditures, including rig construction, for fiscal 2009. If the Company is unable to meet current obligations, portfolio securities may be sold. There can be no assurance that the Company will continue to generate cash flows at current levels or obtain additional financing. The Company's indebtedness totaled \$560 million at March 31, 2009. For additional information regarding debt agreements, refer to Note 12 Notes Payable and Long-term Debt of the Consolidated Condensed Financial Statements.

## Backlog

The Company's contract drilling backlog, being the expected future revenue from executed contracts with original terms in excess of one year, as of May 1, 2009 and October 31, 2008 was \$2.7 billion and \$3.4 billion, respectively. The decrease in the Company's backlog from October 31, 2008 to May 1, 2009 is primarily due to the expiration and termination of long-term contracts. Approximately 81.9 percent of the May 1, 2009 backlog is not reasonably expected to be filled in fiscal 2009. Term contracts customarily provide for termination at the election of the customer with an early termination payment to be paid to the Company if a contract is terminated prior to the expiration of the fixed term. However, under certain limited circumstances, such as destruction of a drilling rig, bankruptcy, sustained unacceptable performance by the Company, or delivery of a rig beyond certain grace and/or liquidated damage periods, no early termination payment would be paid to the Company. In addition, a portion of the backlog represents term contracts for new rigs that will be constructed in the future. The Company obtains certain key rig components from a single or limited number of vendors or fabricators. Certain of these vendors or fabricators are thinly capitalized independent companies located on the Texas Gulf Coast. Therefore, disruptions in rig component deliveries may occur. Accordingly, the actual amount of revenue earned may vary from the backlog reported. See the risk factors under Item 1A. Risk Factors of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on November 26, 2008, regarding fixed term contract risk, operational risks, including weather, and vendors that are limited in number and thinly capitalized.

The following table sets forth the total backlog by reportable segment as of May 1, 2009 and October 31, 2008, and the percentage of the May 1, 2009 backlog not reasonably expected to be filled in fiscal 2009:

| Reportable Segment | Total Backlog |            | Percentage Not Reasonably Expected to be Filled in Fiscal 2009 |
|--------------------|---------------|------------|--|
|                    | 05/01/2009    | 10/31/2008 |  |
|                    | (in billions) |            |  |
| U.S. Land          | \$ 2.251      | \$ 2.876   | 80.7%  |
| Offshore           | .173          | .199       | 86.7%  |
| International Land | .282          | .299       | 87.9%  |

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\$ 2.706 \$ 3.374

Capital Resources

During the six months ended March 31, 2009, the Company announced commitments to build 13 new FlexRigs for locations in the United States. These 13 contracts have term durations ranging from three to four years. These 13, along with the 127 rigs announced in fiscal years 2005 through 2008 brings the Company's commitments to a total of 140 new FlexRigs. Eight of these 140 new rigs were contracted for work in International Land operations and the remaining 132 in U.S. Land operations. The drilling services are performed on a daywork contract basis. Through the end of the second fiscal quarter of 2009, 122 rigs were completed for delivery, and 111 of the 122 had begun field operations. The remaining rigs are expected to be completed by the end of the second quarter of fiscal 2010.

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

March 31, 2009

Capital expenditures were \$525.9 million and \$321.7 million for the first six months of fiscal 2009 and 2008, respectively. Capital expenditures increased from 2008 primarily due to the Company's current construction program of new FlexRigs. Given the Company's commitments with suppliers, the capital expenditure estimate is approximately \$850 million for fiscal 2009, including construction of new FlexRigs.

There were no other significant changes in the Company's financial position since September 30, 2008.

**MATERIAL COMMITMENTS**

Material commitments as reported in the Company's 2008 Annual Report on Form 10-K have not changed significantly at March 31, 2009.

**CRITICAL ACCOUNTING POLICIES**

The Company's accounting policies that are critical or the most important to understand the Company's financial condition and results of operations and that require management of the Company to make the most difficult judgments are described in the Company's 2008 Annual Report on Form 10-K. There have been no material changes in these critical accounting policies other than the adoption of SFAS No. 157, SFAS No. 159, and EITF 06-11 on October 1, 2008. The adoption of these did not have a material impact on the Company's financial position, results of operations or cash flows. The additional disclosures required by SFAS No. 157 are included in Note 9, Fair Value Measurements.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

In November 2008, the FASB ratified EITF, Issue No. 08-6, *Equity-Method Investment Accounting*. EITF 08-6 concludes that the cost basis of a new equity-method investment would be determined using a cost-accumulation mode, which would continue the practice of including transaction costs in the cost of investment and would exclude the value of contingent consideration. Equity-method investment should be subject to other-than-temporary impairment analysis. It also requires that a gain or loss be recognized on the portion of the investor's ownership sold. EITF 08-6 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact the adoption of EITF 08-6 may have on the Consolidated Financial Statements.

In June 2008, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, to clarify that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities. An entity must

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include participating securities in its calculation of basic and diluted earnings per share pursuant to the two-class method pursuant to SFAS No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating FSP EITF 03-6-1 to determine the impact, if any, on the Consolidated Financial Statements.

In April 2008, the FASB issued FSP SFAS No. 142-3, *Determining the Useful Life of Intangible Assets* (FSP SFAS 142-3). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. This FSP must be applied prospectively to intangible assets acquired after the effective date. Accordingly, the Company will adopt FSP SFAS 142-3 in fiscal year 2010.

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

March 31, 2009

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (the FSP). The FSP amends SFAS No. 157, *Fair Value Measurements*, to delay the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). For items within its scope, the FSP defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the FSP to determine the impact, if any, on the Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. Both of these standards are effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS No. 141(R) will be applied prospectively to business combinations occurring after the effective date. Earlier application is prohibited. The Company is currently evaluating the potential impact of adopting SFAS No. 160 but does not expect its adoption to have a significant impact on the Consolidated Financial Statement.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Companies are not allowed to adopt SFAS No. 159 on a retrospective basis unless they choose early adoption. The Company adopted SFAS No. 159 on October 1, 2008, and did not elect the fair value option for eligible items that existed at the date of adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This statement applies under other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued FSPs No. 157-1 and No. 157-2, which, respectively, removed leasing transactions from the scope of SFAS No. 157 and deferred for one year the effective date for SFAS No. 157 as it applies to certain nonfinancial assets and liabilities. On October 1, 2008, the Company adopted, on a prospective basis, the SFAS No. 157 definition of fair value and became subject to the new disclosure requirements (excluding FSP 157-2) with respect to our fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in our financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. The adoption did not impact the consolidated financial position or results of operations. The additional disclosures required by SFAS No. 157 are included in Note 9, *Fair Value Measurements*.

The deferral provided by FSP No. 157-2 applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and nonfinancial long-lived asset groups measured at fair value for an impairment assessment. The Company is currently evaluating the impact FSP No. 157-2 will have on nonfinancial assets and liabilities that are measured at fair value, which are recognized or disclosed at fair value on a nonrecurring basis.





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

March 31, 2009

On October 1, 2008, the Company adopted EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* ( EITF 06-11 ). EITF 06-11 requires companies to recognize a realized income tax benefit associated with dividends or dividend equivalents paid on nonvested equity-classified employee share-based payment awards that are charged to retained earnings as an increase to additional paid-in capital. The adoption of EITF 06-11 did not have a material impact on the Company's financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. The FSP amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* to require disclosure about fair value of financial instruments in interim financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company will include the disclosures required under this FSP beginning in the June 30, 2009 Consolidated Condensed Financial Statements. The adoption of FSP FAS 107-1 and APB 28-1 will have no impact on the Company's consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. The Company has determined that only the provisions of FAS 124-2 are currently applicable. FSP No. 124-2 expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. It is effective for interim and annual periods ending after June 15, 2009 and will be adopted by the Company beginning in the third quarter of fiscal 2009. Management does not currently believe the adoption of this accounting pronouncement will have a material impact on the Company's financial condition or operating results.

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PART I. FINANCIAL INFORMATION

March 31, 2009

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of the Company's market risks, see

- Note 5 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to equity price risk is incorporated herein by reference;
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk in the Company's 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 26, 2008;
- Note 8 and Note 12 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to interest rate risk are incorporated herein by reference; and
- Note 3 and Note 17 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to credit risk and foreign currency exchange rate risk are incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was performed with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2009, at ensuring that information required to be disclosed by the Company in the reports it files or submits 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 the Company's internal controls over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the Company's 2008 Annual Report on Form 10-K, the Company disclosed that in connection with the Company's Foreign Corrupt Practices Act training, questions were raised about the legality of certain past payments by one of the Company's subsidiaries in connection with the passage of materials through customs in Latin America. In consultation with the Audit and Governance Committees of the Board of Directors, the Company engaged outside counsel and outside accountants to review these payments, other transactions of the subsidiary, and transactions at certain of the Company's other operations in Latin America. The Company contacted the Securities and Exchange Commission and the Department of Justice to inform them of this matter, and has cooperated fully with these governmental authorities.

The potential damages and penalties the Company might incur if it was determined that it violated the Foreign Corrupt Practices Act (FCPA) include civil penalties of up to \$10,000 per violation of the anti-bribery provisions and criminal penalties of up to the greater of \$2 million per violation or twice the gross pecuniary gain resulting from any improper conduct and other sanctions. A company that knowingly commits a violation of the accounting provisions can be fined up to \$25 million. It is also possible that governmental agencies could require that the Company enter into a criminal plea agreement, deferred prosecution agreement, or other settlement, which could include monitoring requirements and potentially other sanctions.

Outside counsel has completed its Latin American review and the Company is now in the preliminary stages of discussions with the Enforcement Staff of the Securities and Exchange Commission and with the Department of Justice about an amicable resolution of this matter. The Company cannot predict the outcome of those discussions. However, based on the results of the Company's investigation, the status of the preliminary discussions with the Department of Justice and the Securities and Exchange Commission, and the expectations of the Company's external FCPA legal counsel, the Company believes there is no basis to predict that the fines and penalties will be material to the Company or its financial statements. This belief is based on the total nature and amount of the questionable payments that the investigation uncovered, the fact that the matter was voluntarily disclosed by the Company, and the Company's ongoing cooperation with the Department of Justice and the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

International operations are subject to certain political, economic and other uncertainties not encountered in U.S. operations, including increased risks of terrorism, kidnapping of employees, expropriation of equipment as well as expropriation of a particular oil company operator's property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of the Company's operations or on the ability of the Company to continue operations in certain areas.

Because of the impact of local laws, the Company's future operations in certain areas may be conducted through entities in which local citizens own interests and through entities (including joint ventures) in which the Company holds only a minority interest or pursuant to arrangements under which the Company conducts operations under contract to local entities. While the Company believes that neither operating through such

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entities nor pursuant to such arrangements would have a material adverse effect on the Company's operations or revenues, there can be no assurance that the Company will in all cases be able to structure or restructure its operations to conform to local law (or the administration thereof) on terms acceptable to the Company.

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PART II. OTHER INFORMATION

Venezuela continues to experience significant political, economic and social instability. In the event that extended labor strikes occur or turmoil increases, the Company could experience shortages in labor and/or materials and supplies necessary to operate some or all of its Venezuelan drilling rigs, which could have a material adverse effect on the Company's business, financial condition and results of operations.

During the mid-1970s, the Venezuelan government nationalized the exploration and production business. More recently, Venezuela has nationalized some industries unrelated to the oilfield services industry. At the present time it appears the Venezuelan government will not nationalize the contract drilling business. Any such nationalization could result in the Company's loss of all or a portion of its assets and business in Venezuela.

Although the Company attempts to minimize the potential impact of such risks by operating in more than one geographical area, during the six months ended March 31, 2009, approximately 13 percent of the Company's consolidated operating revenues were generated from the international contract drilling business. During the six months ended March 31, 2009, approximately 95 percent of the international operating revenues were from operations in South America and approximately 62 percent of South American operating revenues were from Venezuela and Colombia.

Reference is made to the risk factors pertaining to currency devaluation risk and receivable balances in Venezuela, interest rate risk and the Company's securities portfolio in Item 1A of Part 1 of the Company's Form 10-K for the year ended September 30, 2008. In order to update these risk factors for developments that have occurred during the first six months of fiscal 2009, the risk factors are hereby amended and updated by reference to, and incorporation herein of, Notes 3, 5, 8, 12 and 17 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof.

Except as discussed above, there have been no material changes to the risk factors disclosed in Item 1A of Part 1 in our Form 10-K for the year ended September 30, 2008.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders of Helmerich & Payne, Inc. was held on March 4, 2009. Proxies for the meeting were solicited by and on behalf of the Board of Directors of Helmerich & Payne, Inc., and there was no solicitation in opposition to such solicitation. The matter presented for vote received the following for and withheld votes as noted below:

To elect three Directors comprising the class of Directors of the Company known as the Third Class for a three-year term expiring in 2012. Each of the nominees for directorship was elected by the affirmative vote of a plurality of the shares of voted common stock. The number of votes for and withheld from each Director, respectively, were as follows: W. H. Helmerich, III 86,368,597 for and 8,684,865 shares withheld; Francis Rooney 92,389,801 for and 2,663,661 shares withheld; and Edward B. Rust, Jr. 90,350,191 for and 4,703,270 withheld. There were no broker non-votes or other abstentions. The other Directors whose term of office as Director continued after the meeting are Hans Helmerich,

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William L. Armstrong, John D. Zeglis, Paula Marshall and Randy A. Foutch.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

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

| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 10.1                  | Amended form of Nonqualified Stock Option Agreement for the Helmerich & Payne, Inc. 2005 Long-Term Incentive Plan.  |
| 10.2                  | 364-Day Credit Agreement dated January 21, 2009, among Helmerich & Payne International Drilling Co., Helmerich & Payne, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed January 22, 2009). |
| 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.  |

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**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: May 5, 2009

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

Date: May 5, 2009

By: /S/DOUGLAS E. FEARS  
Douglas E. Fears, Chief Financial Officer  
(Principal Financial Officer)

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