Helmerich & Payne, Inc.
Form 10-Q
August 01, 2018
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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: June 30, 2018

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	73-0679879
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. Number)

1437 South Boulder Avenue, Tulsa, Oklahoma, 74119

(Address of principal executive office)(Zip Code)

(918) 742-5531

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year,

if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

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

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

CLASS	OUTSTANDING AT July 31, 2018
Common Stock, $0.10 par value	108,943,754

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except share and per share amounts)

ITEM 1. FINANCIAL STATEMENTS

	June 30, 2018 (in thousands)	September 30, 2017
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	$ 306,426	$ 521,375
Short-term investments	44,279	44,491
Accounts receivable, net of allowance of $5,786 and $5,721, respectively	565,321	477,074
Inventories	152,109	137,204
Prepaid expenses and other	65,343	55,120
Current assets - discontinued operations	—	3
Total current assets	1,133,478	1,235,267
NONCURRENT ASSETS:		
Investments	92,702	84,026
Property, plant and equipment, net	4,883,378	5,001,051
Goodwill	69,496	51,705
Intangible assets, net	75,564	50,785
Other assets	11,254	17,154
Total noncurrent assets	5,132,394	5,204,721
TOTAL ASSETS	$ 6,265,872	$ 6,439,988
Liabilities and Shareholders’ Equity		
CURRENT LIABILITIES:		
Accounts payable	$ 143,732	$ 135,628
Accrued liabilities	237,935	208,683
Current liabilities - discontinued operations	1	74
Total current liabilities	381,668	344,385
NONCURRENT LIABILITIES:		
Long-term debt less unamortized discount and debt issuance costs	493,700	492,902
Deferred income taxes	833,738	1,332,689
Other	99,727	101,409

Noncurrent liabilities - discontinued operations	14,548	4,012
Total noncurrent liabilities	1,441,713	1,931,012
SHAREHOLDERS' EQUITY:		
Common stock, $.10 par value, 160,000,000 shares authorized, 112,008,961 shares and 111,956,875 shares issued as of June 30, 2018 and September 30, 2017, respectively, and 108,943,554 shares and 108,604,047 shares outstanding as of June 30, 2018 and September 30, 2017, respectively	11,201	11,196
Preferred stock, no par value, 1,000,000 shares authorized, no shares issued	—	—
Additional paid-in capital	494,604	487,248
Retained earnings	4,103,418	3,855,686
Accumulated other comprehensive income	8,942	2,300
	4,618,165	4,356,430
Treasury stock, at cost	(175,674)	(191,839)
Total shareholders' equity	4,442,491	4,164,591
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,265,872	$ 6,439,988

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share data)

	Three Months Ended June 30, 2018	2017	Nine Months Ended June 30, 2018	2017
Operating revenues				
Drilling - U.S. Land	$ 536,582	$ 405,516	$ 1,480,951	$ 1,000,119
Drilling - Offshore	37,669	33,711	104,018	103,758
Drilling - International Land	63,297	55,075	178,970	157,863
Other	11,324	4,262	26,504	10,697
	648,872	498,564	1,790,443	1,272,437
Operating costs and expenses				
Operating costs, excluding depreciation and amortization	444,511	337,463	1,203,150	881,971
Depreciation and amortization	144,579	145,043	433,521	431,667
Research and development	5,479	3,058	13,149	8,585
General and administrative	52,399	42,890	147,272	110,671
Gain on sale of property, plant and equipment	(4,313)	(1,862)	(15,133)	(17,593)
	642,655	526,592	1,781,959	1,415,301
Operating income (loss) from continuing operations	6,217	(28,028)	8,484	(142,864)
Other income (expense)				
Interest and dividend income	2,109	1,700	5,680	4,028
Interest expense	(5,993)	(6,364)	(17,794)	(17,503)
Other	28	(911)	437	(350)
	(3,856)	(5,575)	(11,677)	(13,825)
Income (loss) from continuing operations before income taxes	2,361	(33,603)	(3,193)	(156,689)
Income tax provision (benefit)	10,535	(10,478)	(494,028)	(50,537)
(Loss) income from continuing operations	(8,174)	(23,125)	490,835	(106,152)
Income from discontinued operations before income taxes	8,383	3,223	9,127	2,705
Income tax provision	8,217	1,897	19,743	2,233
Income (loss) from discontinued operations	166	1,326	(10,616)	472
NET (LOSS) INCOME	$ (8,008)	$ (21,799)	$ 480,219	$ (105,680)
Basic earnings per common share:				
(Loss) income from continuing operations	$ (0.08)	$ (0.22)	$ 4.47	$ (0.99)
Income (loss) from discontinued operations	$ —	$ 0.01	$ (0.10)	$ —
Net (loss) income	$ (0.08)	$ (0.21)	$ 4.37	$ (0.99)

Diluted earnings per common share:				
(Loss) income from continuing operations	$ (0.08)	$ (0.22)	$ 4.45	$ (0.99)
Income (loss) from discontinued operations	$ —	$ 0.01	$ (0.10)	$ —
Net (loss) income	$ (0.08)	$ (0.21)	$ 4.35	$ (0.99)
Weighted average shares outstanding (in thousands):				
Basic	108,905	108,572	108,818	108,470
Diluted	108,905	108,572	109,338	108,470
Dividends declared per common share	$ 0.71	$ 0.70	$ 2.11	$ 2.10

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Net (loss) income	$ (8,008)	$ (21,799)	$ 480,219	$ (105,680)
Other comprehensive income (loss), net of income taxes:				
Unrealized appreciation (depreciation) on securities, net of income taxes of $5,593 and $1,970 at June 30, 2018 and ($4,352) and ($3,150) at June 30, 2017	13,826	(6,899)	5,657	(4,994)
Minimum pension liability adjustments, net of income taxes of $124 and $397 at June 30, 2018 and $209 and $627 at June 30, 2017	337	365	985	1,097
Other comprehensive income (loss)	14,163	(6,534)	6,642	(3,897)
Comprehensive income (loss)	$ 6,155	$ (28,333)	$ 486,861	$ (109,577)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Nine Months Ended June 30, 2018	2017 As Adjusted
OPERATING ACTIVITIES:		
Net income (loss)	$ 480,219	$ (105,680)
Adjustment for income (loss) from discontinued operations	10,616	(472)
Income (loss) from continuing operations	490,835	(106,152)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	433,521	431,667
Amortization of debt discount and debt issuance costs	798	789
Provision for bad debt	598	3,858
Stock-based compensation	23,472	19,247
Pension settlement charge	—	1,411
Gain from sale of property, plant and equipment	(15,133)	(17,593)
Deferred income tax benefit	(498,491)	(27,798)
Other	3,735	62
Change in assets and liabilities:		
Increase in accounts receivable	(87,508)	(62,942)
Increase in inventories	(14,905)	(11,806)
(Increase) decrease in prepaid expenses and other	(5,900)	26,820
Increase in accounts payable	6,513	41,398
Increase (decrease) in accrued liabilities	30,043	(53,456)
Decrease (increase) in deferred income tax liability	(2,511)	3,070
Decrease in other noncurrent liabilities	(6,496)	(8,205)
Net cash provided by operating activities from continuing operations	358,571	240,370
Net cash used in operating activities from discontinued operations	(150)	(115)
Net cash provided by operating activities	358,421	240,255
INVESTING ACTIVITIES:		
Capital expenditures	(322,658)	(300,275)
Purchase of short-term investments	(52,159)	(48,958)
Payment for acquisition of business, net of cash acquired	(47,886)	(70,416)
Proceeds from sale of short-term investments	52,470	53,150
Proceeds from asset sales	28,049	17,921
Net cash used in investing activities	(342,184)	(348,578)
FINANCING ACTIVITIES:		
Dividends paid	(230,368)	(229,061)

Proceeds from stock option exercises	5,160	10,884
Payments for employee taxes on net settlement of equity awards	(5,978)	(6,274)
Net cash used in financing activities	(231,186)	(224,451)
Net decrease in cash and cash equivalents	(214,949)	(332,774)
Cash and cash equivalents, beginning of period	521,375	905,561
Cash and cash equivalents, end of period	$ 306,426	$ 572,787

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

NINE MONTHS ENDED JUNE 30, 2018

(UNAUDITED)

(in thousands, except per share amounts)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury Stock		
	Shares	Amount	Capital	Earnings	Income	Shares	Amount	Total
	(in thousands, except per share amounts)							
alance, eptember 30, 2017	111,957	$ 11,196	$ 487,248	$ 3,855,686	$ 2,300	3,353	$ (191,839)	$ 4,164,591
omprehensive come:								
et income				480,219				480,219
ther omprehensive come					6,642			6,642
ividends declared 2.11 per share)				(231,932)				(231,932)
xercise of stock ptions, net of hares withheld for mployee taxes	1	—	(5,147)			(152)	8,503	3,356
umulative effect djustment for doption of ccounting tandards Update 016-09			872	(555)				317
tock issued for ested restricted ock, net of shares ithheld for mployee taxes	51	5	(11,841)			(136)	7,662	(4,174)
tock-based ompensation			23,472					23,472
alance, ne 30, 2018	112,009	$ 11,201	$ 494,604	$ 4,103,418	$ 8,942	3,065	$ (175,674)	$ 4,442,491

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.Basis of Presentation

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

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission (the "Commission") pertaining to interim financial information. Accordingly, these interim financial statements do not include all information or footnote disclosures required by GAAP for complete financial statements and, therefore, should be read in conjunction with the Consolidated Financial Statements and notes thereto in our 2017 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 our 2017 Annual Report on Form 10-K, our contract drilling revenues are comprised of daywork drilling contracts for which the related revenues and expenses are recognized as services are performed. For contracts that are terminated by customers prior to the expirations of their fixed terms, contractual provisions customarily require early termination amounts to be paid to us. Revenues from early terminated contracts are recognized when all contractual requirements have been met. During the three and nine months ended June 30, 2018, early termination revenue was approximately $6.0 million and $14.3 million, respectively. We had $5.1 million and $24.8 million of early termination revenue for the three and nine months ended June 30, 2017, respectively.

Depreciation in the Condensed Consolidated Statements of Operations includes abandonments of $7.0 million and $22.5 million, respectively, for the three and nine months ended June 30, 2018 and $7.7 million and $27.2 million, respectively, for the three and nine months ended June 30, 2017.

During the three months ended June 30, 2018, we have shortened the estimated useful life of certain components of rigs planned for conversion, with a total net book value of $10.4 million, resulting in an increase in depreciation expense during the three months ended June 30, 2018 of approximately $1.0 million. This will also increase the depreciation expense for the next three months by approximately $5.7 million and will decrease the depreciation expense for fiscal years 2019, 2020, 2021, 2022, and 2023 by $1.4 million, $1.7 million, $1.6 million, $0.9 million, and $0.3 million, respectively and thereafter by $0.8 million.

The functional currency for all our foreign operations is the U.S. dollar. Aggregate foreign currency gains and losses from the translation of monetary assets and liabilities denominated in foreign currency into U.S. dollars are included in direct operating costs and totaled losses of $1.1 million and $2.5 million for the three and nine months ended June 30, 2018, respectively, and $1.3 million and $3.3 million for the three and nine months ended June 30, 2017, respectively.

Goodwill represents the excess of the purchase price over the fair values of the assets acquired and liabilities assumed in a business combination, at the date of acquisition. Goodwill is not amortized but is tested for potential impairment at the reporting unit level, at a minimum on an annual basis, or when indications of potential impairment exist. All of our goodwill is within our Other non-reportable business segment.

Intangible assets with indefinite lives are tested for impairment at least annually in the fourth fiscal quarter or if events occur or circumstances change that would indicate that the value of the assets may be impaired. Finite-lived intangible assets are amortized using the straight-line method over the period in which these assets contribute to our cash flows and are evaluated for impairment in accordance with our policies for valuation of long-lived assets. The

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following is a summary of our finite-lived and indefinite-lived intangible assets other than goodwill at June 30, 2018 and September 30, 2017:

	June 30, 2018		September 30, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Finite-lived intangible asset:				
Developed technology	$ 70,000	$ 4,422	$ 51,000	$ 1,134
Trade name	5,700	166	—	—
Customer relationships	4,000	467	—	—
	$ 79,700	$ 5,055	$ 51,000	$ 1,134
Indefinite-lived intangible asset:				
Trademark	$ 919		$ 919	

Amortization expense was $1.4 million and $3.9 million for the three and nine months ended June 30, 2018, respectively, and is estimated to be approximately $5.4 million for fiscal 2018. Estimated intangible amortization is estimated to be approximately $5.8 million for each of the next four succeeding fiscal years and approximately $5.1 million for fiscal 2023.

Recently adopted accounting pronouncements

On October 1, 2017, we adopted Accounting Standards Update (“ASU”) No. 2016-09, Compensation- Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which changes certain aspects of accounting for share-based payments to employees. The standard requires that all excess tax benefits and deficiencies previously recorded as additional paid-in capital be prospectively recorded in income tax expense. The adoption of this ASU could cause volatility in the effective tax rate on a quarter by quarter basis due primarily to fluctuations in the Company's stock price and the timing of stock option exercises and vesting of restricted share grants. The standard requires excess tax benefits to be presented as an operating activity on the statement of cash flows rather than as a financing activity. Excess tax benefits and deficiencies are recorded within the provision for income taxes within the Condensed Consolidated Statements of Operations on a prospective basis as required by the standard; however, we elected to present changes to the statement of cash flows on a retrospective basis as allowed by the standard in order to maintain comparability between fiscal years. As such, prior period cash flows from operations for nine months ended June 30, 2017 has been adjusted to reflect an increase of $4.1 million, with a corresponding decrease to cash flows used in financing activities, compared to amounts previously reported. The standard also requires taxes paid for employee withholdings to be presented as a financing activity on the statement of cash flows but this requirement had no impact on our total financing activities as this has been the practice historically. We also elected to account for forfeitures of awards as they occur, instead of estimating a forfeiture amount. We recorded a $0.3 million cumulative-effect adjustment to retained earnings for the differential between the amount of compensation cost previously recorded and the amount that would have been recorded without assuming forfeitures.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The new guidance requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Disclosures are required when conditions give rise to substantial doubt. Substantial doubt is deemed to exist when it is probable that the company will be unable to meet its obligations within one year from the financial statement issuance date. The new guidance is effective for the annual period ending after December 15, 2016, and all annual and interim periods thereafter. On October 1, 2017, we adopted the ASU with no impact on our condensed consolidated financial statements or the related footnote disclosures.

In July 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This update simplifies the subsequent measurement of inventory. It

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replaces the current lower of cost or market test with the lower of cost or net realizable value test. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. On October 1, 2017, we adopted ASU No. 2015-11 with no impact on our condensed consolidated financial statements.

2.Business Combinations

On December 8, 2017, we completed an acquisition (“MagVAR Acquisition”) of an unaffiliated company, Magnetic Variation Services, LLC (“MagVAR”), which is now a wholly owned subsidiary of the Company. The operations for MagVAR are included with our Other non-reportable business segment. At the effective time of the MagVAR Acquisition, MagVAR shareholders received aggregate cash consideration of $47.9 million, net of customary closing adjustments, and certain management members received restricted stock awards covering 213,904 shares of Helmerich & Payne, Inc. common stock. The grant date fair value of the restricted stock will be amortized to expense over the three year vesting period. At closing, $6.0 million of the cash consideration was placed in escrow, to be released to the sellers twelve months after the acquisition closing date. The amount placed in escrow is classified as restricted cash and is included in prepaid expenses and other in the Condensed Consolidated Balance Sheet at June 30, 2018. Transaction costs related to the MagVAR Acquisition incurred during the nine months ended June 30, 2018 were approximately $1.2 million and are recorded in the Condensed Consolidated Statements of Operations within general and administrative expense. We recorded revenue of $7.5 million and a net loss of $2.0 million related to MagVAR during the nine months ended June 30, 2018.

Through comprehensive 3D geomagnetic reference modeling, MagVAR provides measurement while drilling (“MWD”) survey corrections by identifying and quantifying MWD tool measurement errors in real-time, greatly improving directional drilling performance and wellbore placement. MagVAR technology has been successfully deployed in both onshore and offshore fields in North America, South America, Europe, Africa, Australia and Asia.

The MagVAR Acquisition has been accounted for as a business combination in accordance with Accounting Standards Codification (“ASC”) 805, Business Combinations, which requires the assets acquired and liabilities assumed to be recorded at their acquisition date fair values. The following table summarizes the purchase price and the fair values of assets acquired and liabilities assumed at the acquisition date (in thousands):

Purchase Price	
Consideration given	
Cash consideration	$ 48,485
Allocation of Purchase Price	
Fair value of assets acquired	
Current assets	$ 2,286

Property, plant and equipment	13
Intangible assets	28,700
Goodwill	17,791
Total assets acquired	$ 48,790
Fair value of liabilities assumed	
Current liabilities	$ 305
Fair value of total assets acquired and liabilities assumed	$ 48,485

Intangible assets acquired consist of developed technology, a trade name and customer relationships. The intangible assets will be amortized under a straight-line method over their estimated useful lives ranging from 5 to 20 years.

The methodologies used in valuing the intangible assets include the multi-period excess earnings method for developed technology, the with and without method for customer relationships and the relief-from-royalty method

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for the trade name. The excess of the purchase price over the total net identifiable assets has been recorded as goodwill. Factors comprising goodwill includes the synergies expected from the expanded service capabilities as well as the value of the assembled workforce. The goodwill is reported within our Other non-reportable business segment and will not be allocated to any other reporting unit. The goodwill is not subject to amortization, but will be evaluated at least annually for impairment, or more frequently if impairment indicators are present. The intangible assets and goodwill will be amortized straight line over 15 years for income tax purposes.

The following unaudited pro forma combined financial information is provided for the nine months ended June 30, 2018 and 2017, as though the MagVAR Acquisition had been completed as of October 1, 2016. These pro forma combined results of operations have been prepared by adjusting our historical results to include the historical results of MagVAR and reflect pro forma adjustments based on available information and certain assumptions that we believe are reasonable, including application of an appropriate income tax to MagVAR's pre-tax loss. Additionally, pro forma earnings for the nine months ended June 30, 2018 were adjusted to exclude $0.5 million of after-tax transaction costs. The unaudited pro forma combined financial information is provided for illustrative purposes only and is not necessarily indicative of the actual results that would have been achieved by the combined company for the periods presented or that may be achieved by the combined company in the future. Future results may vary significantly from the results reflected in this pro forma financial information.

	Pro Forma (unaudited) Nine Months Ended June 30,	
	2018	2017
	(in thousands)	
Revenues	$ 1,794,131	$ 1,279,424
Net income (loss)	$ 480,411	$ (104,519)

3.Discontinued Operations

Current and noncurrent liabilities consist of municipal and income taxes payable and social obligations due within the country of Venezuela. Expenses incurred for in-country obligations are reported as discontinued operations. The activity for the three and nine months ended June 30, 2018 was impacted by the devaluation of the Venezuela bolivar. Early in 2018, the Venezuelan government announced that it changed the existing dual-rate foreign currency exchange system by eliminating its heavily subsidized foreign exchange rate, which was 10 Bolivars per United States dollar, and relaunced an exchange system known as DICOM. The DICOM floating rate was approximately 115,000 Bolivars per United States dollar at June 30, 2018.

4.Earnings per Share

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

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

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

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

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

	Three Months Ended June 30, 2018	2017	Nine Months Ended June 30, 2018	2017
	(in thousands, except per share amounts)			
Numerator:				
(Loss) income from continuing operations	$ (8,174)	$ (23,125)	$ 490,835	$ (106,152)
Income (loss) from discontinued operations	166	1,326	(10,616)	472
Net (loss) income	(8,008)	(21,799)	480,219	(105,680)
Adjustment for basic earnings per share				
Earnings allocated to unvested shareholders	(717)	(458)	(4,241)	(1,349)
Numerator for basic earnings per share:				
From continuing operations	(8,891)	(23,583)	486,594	(107,501)
From discontinued operations	166	1,326	(10,616)	472
	(8,725)	(22,257)	475,978	(107,029)
Adjustment for diluted earnings per share:				
Effect of reallocating undistributed earnings of unvested shareholders	—	—	10	—
Numerator for diluted earnings per share:				
From continuing operations	(8,891)	(23,583)	486,604	(107,501)
From discontinued operations	166	1,326	(10,616)	472
	$ (8,725)	$ (22,257)	$ 475,988	$ (107,029)
Denominator:				
Denominator for basic earnings per share - weighted-average shares	108,905	108,572	108,818	108,470
Effect of dilutive shares from stock options and restricted stock	—	—	520	—
Denominator for diluted earnings per share - adjusted weighted-average shares	108,905	108,572	109,338	108,470
Basic earnings per common share:				
(Loss) income from continuing operations	$ (0.08)	$ (0.22)	$ 4.47	$ (0.99)
Income (loss) from discontinued operations	—	0.01	(0.10)	—
Net (loss) income	$ (0.08)	$ (0.21)	$ 4.37	$ (0.99)
Diluted earnings per common share:				
(Loss) income from continuing operations	$ (0.08)	$ (0.22)	$ 4.45	$ (0.99)
Income (loss) from discontinued operations	—	0.01	(0.10)	—
Net (loss) income	$ (0.08)	$ (0.21)	$ 4.35	$ (0.99)

We had a net loss for the three months ended June 30, 2018 and three and nine months ended June 30, 2017. Accordingly, our diluted earnings per share calculation for these periods were equivalent to our basic earnings per share calculation since diluted earnings per share excluded any assumed exercise of equity awards. These were excluded because they were deemed to be anti-dilutive, meaning their inclusion would have reduced the reported net loss per share in the applicable period.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Shares excluded from calculation of diluted earnings per share	929	1,332	1,585	1,034
Weighted-average price per share	$ 75.56	$ 70.82	$ 68.51	$ 73.84

5.Financial Instruments and Fair Value Measurement

The estimated fair value of our available-for-sale securities, reflected on our Condensed Consolidated Balance Sheets as Investments, is based on Level 1 inputs. The following is a summary of available-for-sale securities, which excludes assets held in a Non-qualified Supplemental Savings Plan:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Equity Securities:				
June 30, 2018	$ 38,473	$ 39,327	$ —	$ 77,800
September 30, 2017	$ 38,473	$ 31,700	$ —	$ 70,173

On an ongoing basis we evaluate the marketable equity securities to determine if any decline in fair value below cost is other-than-temporary. If a decline in fair value below cost is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis established. We review several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, (i) the length of time a security is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near-term prospects of the issuer and (iv) our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. When securities are sold, the cost of securities used in determining realized gains and losses is based on the average cost basis of the security sold.

The assets held in the Non-qualified Supplemental Savings Plan are carried at fair value which totaled $15.0 million at June 30, 2018 and $13.9 million at September 30, 2017. The assets are comprised of mutual funds that are measured using Level 1 inputs.

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

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

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

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

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- Level 2 — Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

At June 30, 2018, our financial instruments utilizing Level 1 inputs include cash equivalents, U.S. Agency issued debt securities, equity securities with active markets and money market funds that are classified as restricted assets. The current portion of restricted amounts are included in prepaid expenses and other, and the noncurrent portion are included in other assets. For these items, quoted current market prices are readily available.

At June 30, 2018, Level 2 inputs include certificates of deposit, municipal bonds and corporate bonds measured using broker quotations that utilize observable market inputs.

Our financial instruments measured using Level 3 inputs consist of potential earnout payments associated with the acquisition of MOTIVE Drilling Technologies, Inc. in fiscal 2017. The valuation techniques used for determining the fair value of the potential earnout payments use a Monte Carlo simulation which evaluates numerous potential earnings and pay out scenarios.

The following table summarizes our assets and liabilities measured at fair value presented in our Condensed Consolidated Balance Sheet as of June 30, 2018:

	Fair Value (in thousands)	(Level 1)	(Level 2)	(Level 3)
Recurring fair value measurements:				
Short-term investments:				
Certificates of deposit	$ 1,500	$ —	$ 1,500	$ —
Corporate and municipal debt securities	13,794	—	13,794	—
U.S. government and federal agency securities	28,985	28,985	—	—
Total short-term investments	44,279	28,985	15,294	—
Cash and cash equivalents	306,426	306,426	—	—
Investments	77,800	77,800	—	—
Other current assets	34,614	34,614	—	—
Other assets	6,902	6,902	—	—
Total assets measured at fair value	$ 470,021	$ 454,727	$ 15,294	$ —

Liabilities:				
Contingent earnout liability	$ 9,402	$ —	$ —	$ 9,402

The following table presents a reconciliation of changes in the fair value of our financial assets and liabilities classified as Level 3 fair value measurements in the fair value hierarchy for the indicated periods:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Net liabilities at beginning of period	$ 15,702	$ —	$ 14,879	$ —
Total gains or losses:				
Included in earnings	(175)	14,509	5,148	14,509
Settlements	(6,125)	—	(10,625)	—
Net liabilities at end of period	$ 9,402	$ 14,509	$ 9,402	$ 14,509

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Settlements represent earnout payments that have been earned or paid during the period.

The following information presents the supplemental fair value information about long-term fixed-rate debt at June 30, 2018 and September 30, 2017:

	June 30, 2018	September 30, 2017
	(in millions)	
Carrying value of long-term fixed-rate debt	$ 493.7	$ 492.9
Fair value of long-term fixed-rate debt	$ 516.5	$ 529.0

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

6.Shareholders' Equity

The Company has authorization from the Board of Directors for the repurchase of up to four million shares per calendar year. The repurchases may be made using our cash and cash equivalents or other available sources. We had no purchases of common shares during the nine months ended June 30, 2018 and 2017.

Components of accumulated other comprehensive income were as follows:

	June 30, 2018	September 30, 2017
	(in thousands)	
Pre-tax amounts:		
Unrealized appreciation on securities	$ 39,327	$ 31,700
Unrealized actuarial loss	(27,491)	(28,873)
	$ 11,836	$ 2,827
After-tax amounts:		
Unrealized appreciation on securities	$ 25,727	$ 20,070
Unrealized actuarial loss	(16,785)	(17,770)

$ 8,942	$ 2,300

The following is a summary of the changes in accumulated other comprehensive income (loss), net of tax, by component for the three and nine months ended June 30, 2018:

	Three Months Ended June 30, 2018		
	Unrealized Appreciation (Depreciation) on Available-for-sale Securities	Defined Benefit Pension Plan	Total
	(in thousands)		
Balance at April 1, 2018	$ 11,901	$ (17,122)	$ (5,221)
Other comprehensive income before reclassifications	13,826	—	13,826
Amounts reclassified from accumulated other comprehensive income	—	337	337
Net current-period other comprehensive income	13,826	337	14,163
Balance at June 30, 2018	$ 25,727	$ (16,785)	$ 8,942

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	Nine Months Ended June 30, 2018		
	Unrealized Appreciation (Depreciation) on Available-for-sale Securities	Defined Benefit Pension Plan	Total
	(in thousands)		
Balance at October 1, 2017	$ 20,070	$ (17,770)	$ 2,300
Other comprehensive income before reclassifications	5,657	—	5,657
Amounts reclassified from accumulated other comprehensive income	—	985	985
Net current-period other comprehensive income	5,657	985	6,642
Balance at June 30, 2018	$ 25,727	$ (16,785)	$ 8,942

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

ails About Accumulated Other nprehensive Income (Loss) Components	Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended June 30,		Reclassified from Accumulated Other Comprehensive Income (Loss) Nine Months Ended June 30,		Affected Line Item in the Condensed Consolidated Statements of Operation
	2018	2017	2018	2017	
	(in thousands)		(in thousands)		
ortization of net actuarial loss on defined efit pension plan	$ (461)	$ (574)	$ (1,382)	$ (1,724)	General and administrative
	124	209	397	627	Income tax provision
al reclassifications for the period	$ (337)	$ (365)	$ (985)	$ (1,097)	Net of tax

7.Cash Dividends

On June 6, 2018, a cash dividend of $0.71 per share was declared for shareholders of record on August 17, 2018, payable August 31, 2018. The dividend payable is included in accounts payable in the Condensed Consolidated Balance Sheets. The $0.70 per share cash dividends declared March 7, 2018 and December 5, 2017, were paid June 1, 2018 and March 1, 2018, respectively.

8.Stock-Based Compensation

On March 2, 2016, the Helmerich & Payne, Inc. 2016 Omnibus Incentive Plan (the “2016 Plan”) was approved by our stockholders. The 2016 Plan, among other things, authorizes the Human Resources Committee of the Board to grant non-qualified stock options and restricted stock awards to selected employees and to non-employee Directors. Restricted stock may be granted for no consideration other than prior and future services. The purchase price per share for stock options may not be less than market price of the underlying stock on the date of grant. Stock options expire 10 years after the grant date. Awards outstanding in the Helmerich & Payne, Inc. 2005 Long-Term Incentive Plan and the Helmerich & Payne, Inc. 2010 Long-Term Incentive Plan (collectively the "2010 Plan") remain subject to the terms and conditions of those plans. During the nine months ended June 30, 2018, there were 690,947 non-qualified stock options and 411,271 shares of restricted stock awards granted under the 2016 Plan. An additional 213,904 of restricted stock grants were awarded outside of the 2016 Plan.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Compensation expense				
Stock options	$ 1,815	$ 1,934	$ 5,887	$ 5,455
Restricted stock	6,111	4,834	17,585	13,792
	$ 7,926	$ 6,768	$ 23,472	$ 19,247

STOCK OPTIONS

The following summarizes the weighted-average assumptions utilized in determining the fair value of options granted during the nine months ended June 30, 2018 and 2017:

	2018	2017
Risk-free interest rate	2.2 %	2.0 %
Expected stock volatility	36.1 %	38.9 %
Dividend yield	4.7 %	3.7 %
Expected term (in years)	6.0	5.5

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

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

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

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

A summary of stock option activity under all existing long-term incentive plans for the three and nine months ended June 30, 2018 is presented in the following tables:

	Three Months Ended June 30, 2018			
	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at April 1, 2018	3,721	$ 58.15		
Granted	24	68.90		
Exercised	(66)	56.02		
Forfeited/Expired	(59)	68.70		
Outstanding at June 30, 2018	3,620	$ 58.08	5.96	$ 31.5
Vested and expected to vest at June 30, 2018	3,620	$ 58.08	5.96	$ 31.5
Exercisable at June 30, 2018	2,308	$ 55.61	4.44	$ 25.8

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	Nine Months Ended June 30, 2018	
	Shares (in thousands)	Weighted Average Exercise Price
Outstanding at October 1, 2017	3,278	$ 56.41
Granted	691	59.01
Exercised	(290)	39.20
Forfeited/Expired	(59)	68.70
Outstanding at June 30, 2018	3,620	$ 58.08

The weighted-average fair value of options granted in the first, second and third quarters of fiscal 2018 was $12.94, $17.78 and $17.82, respectively.

The total intrinsic value of options exercised during the three and nine months ended June 30, 2018 was $1.0 million and $6.6 million, respectively.

As of June 30, 2018, the unrecognized compensation cost related to stock options was $9.3 million which is expected to be recognized over a weighted-average period of 2.3 years.

RESTRICTED STOCK

Restricted stock awards consist of our common stock and are time-vested over three to six years. We recognize compensation expense on a straight-line basis over the vesting period. The fair value of restricted stock awards is determined based on the closing price of our shares on the grant date. As of June 30, 2018, there was $41.0 million of total unrecognized compensation cost related to unvested restricted stock awards. That cost is expected to be recognized over a weighted-average period of 2.5 years.

A summary of the status of our restricted stock awards as of June 30, 2018 and changes in restricted stock outstanding during the nine months then ended is presented below:

	Nine Months Ended June 30, 2018	
	Shares (in thousands)	Weighted Average Grant Date Fair Value per Share
Unvested at October 1, 2017	659	$ 70.76
Granted	625	59.52
Vested (1)	(258)	71.16
Forfeited	(19)	68.98
Unvested on June 30, 2018	1,007	$ 63.72

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

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9.Debt

At June 30, 2018 and September 30, 2017, we had the following unsecured long-term debt outstanding:

		Unamortized Discount and
	Principal	Debt Issuance Costs
	June 30,	