

HELMERICH & PAYNE INC
Form 10-Q
August 08, 2014
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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, 2014**

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

73-0679879
(I.R.S. Employer I.D. Number)

1437 South Boulder Avenue, Tulsa, Oklahoma, 74119

(Address of principal executive office)(Zip Code)

(918) 742-5531

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant 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, 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

Accelerated filer

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

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 No

CLASS
Common Stock, \$0.10 par value

OUTSTANDING AT July 31, 2014
108,226,909

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share and per share amounts)

ITEM 1. FINANCIAL STATEMENTS

	June 30, 2014	September 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 549,928	\$ 447,868
Accounts receivable, less reserve of \$4,601 at June 30, 2014 and \$4,795 at September 30, 2013	705,787	621,420
Inventories	106,250	88,866
Deferred income taxes	12,170	16,414
Prepaid expenses and other	69,324	79,938
Current assets of discontinued operations	6,962	3,705
Total current assets	1,450,421	1,258,211
Investments	279,428	316,154
Property, plant and equipment, net	4,943,660	4,676,103
Other assets	19,573	14,359
Total assets	\$ 6,693,082	\$ 6,264,827
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 139,396	\$ 144,379
Accrued liabilities	244,539	189,684
Long-term debt due within one year	115,000	115,000
Current liabilities of discontinued operations	3,176	3,210
Total current liabilities	502,111	452,273
Noncurrent liabilities:		
Long-term debt	80,000	80,000
Deferred income taxes	1,230,633	1,222,981
Other	57,465	65,351
Noncurrent liabilities of discontinued operations	3,786	495
Total noncurrent liabilities	1,371,884	1,368,827
Shareholders' equity:		
Common stock, \$.10 par value, 160,000,000 shares authorized, 110,475,089 shares and 108,738,577 shares issued as of June 30, 2014 and September 30, 2013, respectively and 108,199,941 shares and 106,716,970 shares outstanding as of June 30, 2014 and September 30, 2013, respectively	11,048	10,874

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Preferred stock, no par value, 1,000,000 shares authorized, no shares issued		
Additional paid-in capital	376,465	288,758
Retained earnings	4,431,974	4,102,663
Accumulated other comprehensive income	112,445	132,530
Treasury stock, at cost	(112,845)	(91,098)
Total shareholders' equity	4,819,087	4,443,727
Total liabilities and shareholders' equity	\$ 6,693,082	\$ 6,264,827

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Operating revenues:				
Drilling U.S. Land	\$ 802,279	\$ 695,816	\$ 2,275,744	\$ 2,077,556
Drilling Offshore	64,554	53,859	186,884	167,182
Drilling International Land	81,267	86,978	262,141	268,337
Other	3,987	3,544	9,900	10,003
	952,087	840,197	2,734,669	2,523,078
Operating costs and other:				
Operating costs, excluding depreciation	515,239	450,990	1,469,454	1,379,598
Depreciation	128,978	117,790	373,178	336,822
General and administrative	34,222	31,090	100,896	96,347
Research and development	3,864	4,373	11,746	11,422
Income from asset sales	(2,128)	(4,006)	(11,890)	(14,538)
	680,175	600,237	1,943,384	1,809,651
Operating income from continuing operations	271,912	239,960	791,285	713,427
Other income (expense):				
Interest and dividend income	373	341	1,316	1,082
Interest expense	(1,435)	(2,091)	(4,354)	(4,585)
Gain from sale of investment securities	23,882	153,369	45,234	162,121
Other	346	(1,214)	(31)	(3,195)
	23,166	150,405	42,165	155,423
Income from continuing operations before income taxes	295,078	390,365	833,450	868,850
Income tax provision	102,788	139,387	293,389	307,194
Income from continuing operations	192,290	250,978	540,061	561,656
Income (loss) from discontinued operations before income taxes				
	(11)	15,181	2,775	14,701
Income tax provision			2,805	(485)
Income (loss) from discontinued operations	(11)	15,181	(30)	15,186
NET INCOME	\$ 192,279	\$ 266,159	\$ 540,031	\$ 576,842
Basic earnings per common share:				
Income from continuing operations	\$ 1.77	\$ 2.35	\$ 4.99	\$ 5.26
Income from discontinued operations		0.14		0.14
Net income	\$ 1.77	\$ 2.49	\$ 4.99	\$ 5.40

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Diluted earnings per common share:							
Income from continuing operations	\$	1.75	\$	2.32	\$	4.92	\$ 5.19
Income from discontinued operations				0.14			0.14
Net income	\$	1.75	\$	2.46	\$	4.92	\$ 5.33
Weighted average shares outstanding:							
Basic		108,137		106,430		107,657	106,206
Diluted		109,285		107,826		109,086	107,717
Dividends declared per common share	\$	0.69	\$	0.50	\$	1.94	\$ 0.80

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 192,279	\$ 266,159	\$ 540,031	\$ 576,842
Other comprehensive income (loss), net of income taxes:				
Unrealized appreciation (depreciation) on securities, net of income taxes of \$5.3 million and \$1.0 million at June 30, 2014 and \$1.2 million and \$23.0 million at June 30, 2013	13,728	(7,495)	7,215	29,887
Reclassification of realized gains in net income, net of income taxes of (\$9.0) million and (\$17.5) million at June 30, 2014 and (\$60.8) million at June 30, 2013	(14,853)	(92,543)	(27,737)	(92,543)
Minimum pension liability adjustments, net of income taxes of \$0.1 million and \$0.3 million at June 30, 2014 and \$0.3 million and \$0.8 million at June 30, 2013	145	441	437	1,306
Other comprehensive loss	(980)	(99,597)	(20,085)	(61,350)
Comprehensive income	\$ 191,299	\$ 166,562	\$ 519,946	\$ 515,492

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine Months Ended June 30,	
	2014	2013
OPERATING ACTIVITIES:		
Net income	\$ 540,031	\$ 576,842
Adjustment for (income) loss from discontinued operations	30	(15,186)
Income from continuing operations	540,061	561,656
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	373,178	336,822
Provision for (recovery of) bad debt	(194)	3,781
Stock-based compensation	21,089	17,471
Other	1	1,156
Gain on sale of investment securities	(45,234)	(162,121)
Income from asset sales	(11,890)	(14,538)
Deferred income tax expense	28,665	15,822
Change in assets and liabilities:		
Accounts receivable	(84,173)	(5,697)
Inventories	(17,384)	(10,009)
Prepaid expenses and other	5,400	15,564
Accounts payable	(31,240)	(62,830)
Accrued liabilities	31,633	83,290
Deferred income taxes	(927)	(1,291)
Other noncurrent liabilities	(11,060)	(17,619)
Net cash provided by operating activities from continuing operations	797,925	761,457
Net cash provided by (used in) operating activities from discontinued operations	(30)	186
Net cash provided by operating activities	797,895	761,643
INVESTING ACTIVITIES:		
Capital expenditures	(622,028)	(618,550)
Proceeds from sale of investment securities	49,205	232,221
Proceeds from asset sales	21,485	21,729
Net cash used in investing activities from continuing operations	(551,338)	(364,600)
Net cash provided by investing activities from discontinued operations		15,000
Net cash used in investing activities	(551,338)	(349,600)
FINANCING ACTIVITIES:		
Dividends paid	(189,542)	(39,519)
Exercise of stock options	22,370	6,118
Tax withholdings related to net share settlements of restricted stock	(3,049)	(1,677)
Excess tax benefit from stock-based compensation	25,724	7,420
Net cash used in financing activities	(144,497)	(27,658)
Net increase in cash and cash equivalents	102,060	384,385
Cash and cash equivalents, beginning of period	447,868	96,095
Cash and cash equivalents, end of period	\$ 549,928	\$ 480,480

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

NINE MONTHS ENDED JUNE 30, 2014

(Unaudited)

(in thousands, except per share amounts)

	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-In	Earnings	Other	Shares	Amount	Shareholders
			Capital		Comprehensive			Equity
					Income			
Balance, September 30, 2013	108,739	\$ 10,874	\$ 288,758	\$ 4,102,663	\$ 132,530	2,022	\$ (91,098)	\$ 4,443,727
Net income				540,031				540,031
Other comprehensive loss					(20,085)			(20,085)
Cash dividends (\$1.94 per share)				(210,720)				(210,720)
Exercise of stock options	1,579	158	40,910			215	(18,698)	22,370
Tax benefit of stock-based awards, including excess tax benefits of \$25.7 million			25,724					25,724
Stock issued for vested restricted stock, net of shares withheld for employee taxes	157	16	(16)			38	(3,049)	(3,049)
Stock-based compensation			21,089					21,089
Balance, June 30, 2014	110,475	\$ 11,048	\$ 376,465	\$ 4,431,974	\$ 112,445	2,275	\$ (112,845)	\$ 4,819,087

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

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

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (the Commission) pertaining to interim financial information. Accordingly, these interim financial statements do not include all information or footnote disclosures required by GAAP for complete financial statements and, therefore, should be read in conjunction with the Consolidated Financial Statements and notes thereto in our 2013 Annual Report on Form 10-K, as amended, 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 2013 Annual Report on Form 10-K, as amended, 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.

2. Discontinued Operations

Current assets of discontinued operations consist of restricted cash to meet remaining in-country current obligations. Current and noncurrent liabilities of discontinued operations consist of municipal and income taxes payable and social obligations due within the country of Venezuela.

3. Earnings per Share

Accounting Standards Codification (ASC) 260, *Earnings per Share*, requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend 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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Numerator:				
Income from continuing operations	\$ 192,290	\$ 250,978	\$ 540,061	\$ 561,656
Income (loss) from discontinued operations	(11)	15,181	(30)	15,186
Net income	192,279	266,159	540,031	576,842
Adjustment for basic earnings per share:				
Earnings allocated to unvested shareholders	(1,134)	(1,441)	(3,160)	(2,972)
Numerator for basic earnings per share:				
From continuing operations	191,156	249,537	536,901	558,684
From discontinued operations	(11)	15,181	(30)	15,186
	191,145	264,718	536,871	573,870
Adjustment for diluted earnings per share:				
Effect of reallocating undistributed earnings of unvested shareholders	7	15	25	35
Numerator for diluted earnings per share:				
From continuing operations	191,163	249,552	536,926	558,719
From discontinued operations	(11)	15,181	(30)	15,186
	\$ 191,152	\$ 264,733	\$ 536,896	\$ 573,905
Denominator:				
Denominator for basic earnings per share weighted-average shares	108,137	106,430	107,657	106,206
Effect of dilutive shares from stock options and restricted stock	1,148	1,396	1,429	1,511
Denominator for diluted earnings per share adjusted weighted-average shares	109,285	107,826	109,086	107,717
Basic earnings per common share:				
Income from continuing operations	\$ 1.77	\$ 2.35	\$ 4.99	\$ 5.26
Income from discontinued operations		0.14		0.14
Net income	\$ 1.77	\$ 2.49	\$ 4.99	\$ 5.40
Diluted earnings per common share:				
Income from continuing operations	\$ 1.75	\$ 2.32	\$ 4.92	\$ 5.19
Income from discontinued operations		0.14		0.14
Net income	\$ 1.75	\$ 2.46	\$ 4.92	\$ 5.33

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,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			

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Shares excluded from calculation of diluted earnings per share			750		256		801
Weighted-average price per share	\$	\$	57.29	\$	79.67	\$	57.22

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4. Financial Instruments and Fair Value Measurement

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Equity securities June 30, 2014	\$ 64,462	\$ 200,600	\$	\$ 265,062
Equity securities September 30, 2013	\$ 68,434	\$ 237,214	\$	\$ 305,648

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

During the three and nine months ended June 30, 2014, we sold shares in an available-for-sale security realizing gains of \$23.9 million and \$45.2 million, respectively. During the third quarter ended June 30, 2013, we sold shares in an available-for-sale security realizing a gain of \$153.4 million. All of the gains from available-for-sale securities are included in gain from sale of investment securities in the Consolidated Condensed Statements of Income. Net income includes after-tax gains from the sale of available-for-sale securities as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
After-tax gain from the sale of available-for-sale securities	\$ 14,882	\$ 92,449	\$ 27,761	\$ 92,449
Earnings per diluted share from the sale of available-for-sale securities	\$ 0.13	\$ 0.86	\$ 0.25	\$ 0.86

During the nine months ended June 30, 2013, we sold our shares in three limited partnerships that were primarily invested in international equities realizing a gain of \$8.8 million that is included in gain from sale of investment securities in the Consolidated Condensed Statements of Income.

Assets held in the Non-qualified Supplemental Savings Plan are carried at fair value based on level 1 inputs described below. The fair value totaled \$14.4 million at June 30, 2014 and \$10.5 million at September 30, 2013.

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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, 2014, our financial instruments utilizing Level 1 inputs include cash equivalents, equity securities with active markets, restricted cash included in other current assets and money market funds we have elected to classify as restricted assets that are included in other current assets and other assets. Also included is cash denominated in a foreign currency that we have elected to classify as restricted to be used to settle the remaining liabilities of discontinued operations. For these items, quoted current market prices are readily available.

At June 30, 2014, financial instruments utilizing level 2 inputs include a bank certificate of deposit included in other current assets.

Currently, we do not have any financial instruments utilizing Level 3 inputs.

The following table summarizes our assets measured at fair value on a recurring basis presented in our Consolidated Condensed Balance Sheet as of June 30, 2014:

	Total Measure at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Cash and cash equivalents	\$ 549,928	\$ 549,928	\$	\$
Equity securities	265,062	265,062		
Other current assets	31,060	30,810	250	
Other assets	2,000	2,000		
Total assets measured at fair value	\$ 848,050	\$ 847,800	\$ 250	\$

The following information presents the supplemental fair value information about fixed-rate debt at June 30, 2014 and September 30, 2013:

June 30, 2014	September 30, 2013
--------------------------	-------------------------------

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(in millions)

Carrying value of fixed-rate debt	\$	195.0	\$	195.0
Fair value of fixed-rate debt	\$	201.4	\$	205.4

The fair value for fixed-rate debt was estimated using cash flows discounted at rates reflecting current interest rates at similar maturities plus a credit spread which was estimated using market information on debt instruments with a similar credit profile to us. The debt was valued using a Level 2 input.

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5. Accumulated Other Comprehensive Income

	June 30, 2014		September 30, 2013
	(in thousands)		
Pre-tax amounts:			
Unrealized appreciation on securities	\$ 200,599	\$	237,214
Unrecognized actuarial loss	(18,523)		(19,210)
	\$ 182,076	\$	218,004
After-tax amounts:			
Unrealized appreciation on securities	\$		