

Laredo Petroleum, Inc.  
Form 10-Q  
August 08, 2017

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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 the quarterly period ended June 30, 2017

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: 001-35380

Laredo Petroleum, Inc.

(Exact name of registrant as specified in its charter)

Delaware 45-3007926

(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

15 W. Sixth Street, Suite 900

Tulsa, Oklahoma 74119

(Address of principal executive offices) (Zip code)

(918) 513-4570

(Registrant's telephone number, including area code)

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 website, 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, a 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. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a 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

Number of shares of registrant's common stock outstanding as of August 3, 2017: 242,505,312

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in or incorporated by reference into this Quarterly Report on Form 10-Q (this "Quarterly Report") are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include statements, projections and estimates concerning our operations, performance, business strategy, oil and natural gas reserves, drilling program capital expenditures, liquidity and capital resources, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes, derivative activities and potential financing. Forward-looking statements are generally accompanied by words such as "estimate," "project," "predict," "believe," "expect," "anticipate," "potential," "could," "may," "will," "foresee," "plan," "goal," "should," "intend," "pursue," "target," "continue," "suggest" or the negative thereof or other variations thereof or other words that convey the uncertainty of future events or outcomes. Forward-looking statements are not guarantees of performance. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Among the factors that significantly impact our business and could impact our business in the future are:

- the volatility of, and substantial decline in, oil, natural gas liquids ("NGL") and natural gas prices, which remain at low levels;
- revisions to our reserve estimates as a result of changes in commodity prices and other uncertainties;
- impacts to our financial statements as a result of impairment write-downs;
- our ability to discover, estimate, develop and replace oil, NGL and natural gas reserves;
- changes in domestic and global production, supply and demand for oil, NGL and natural gas;
- the ongoing instability and uncertainty in the United States and international financial and consumer markets that could adversely affect the liquidity available to us and our customers and the demand for commodities, including oil, NGL and natural gas;
- capital requirements for our operations and projects;
- our ability to maintain the borrowing capacity under our Senior Secured Credit Facility (as defined below) or access other means of obtaining capital and liquidity, especially during periods of sustained low commodity prices;
- restrictions contained in our debt agreements, including our Senior Secured Credit Facility and the indentures governing our senior unsecured notes, as well as debt that could be incurred in the future;
- our ability to generate sufficient cash to service our indebtedness, fund our capital requirements and generate future profits;
- our ability to hedge and regulations that affect our ability to hedge;
- the potentially insufficient refining capacity in the United States Gulf Coast to refine all of the light sweet crude oil being produced in the United States, which could result in widening price discounts to world crude prices and potential shut-in of production due to lack of sufficient markets;
- regulations that prohibit or restrict our ability to apply hydraulic fracturing to our oil and natural gas wells and to access and dispose of water used in these operations;
- legislation or regulations that prohibit or restrict our ability to drill new allocation wells;
- our ability to execute our strategies;
- competition in the oil and natural gas industry;
- changes in the regulatory environment and changes in United States or international legal, political, administrative or economic conditions;
- drilling and operating risks, including risks related to hydraulic fracturing activities;
- risks related to the geographic concentration of our assets;
- the availability and costs of drilling and production equipment, labor and oil and natural gas processing and other services;
- the availability of sufficient pipeline and transportation facilities and gathering and processing capacity;



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• the ability to successfully identify and consummate strategic acquisitions at purchase prices that are accretive to our financial results and to successfully integrate acquired businesses, assets and properties;

- our ability to comply with federal, state and local regulatory requirements; and

• our ability to recruit and retain the qualified personnel necessary to operate our business.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various factors, including those set forth under "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report, under "Part I, Item 1A. Risk Factors" and "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "2016 Annual Report"), and those set forth from time to time in our other filings with the Securities and Exchange Commission (the "SEC"). These documents are available through our website or through the SEC's Electronic Data Gathering and Analysis Retrieval system at <http://www.sec.gov>. In light of such risks and uncertainties, we caution you not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report, or if earlier, as of the date they were made. We do not intend to, and disclaim any obligation to, update or revise any forward-looking statements unless required by securities law.

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## Part I

## Item 1. Consolidated Financial Statements (Unaudited)

Laredo Petroleum, Inc.

Consolidated balance sheets

(in thousands, except share data)

(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$35,024	\$32,672
Accounts receivable, net	72,107	86,867
Derivatives	42,985	20,947
Other current assets	17,548	14,291
Total current assets	167,664	154,777
Property and equipment:		
Oil and natural gas properties, full cost method:		
Evaluated properties	5,703,873	5,488,756
Unevaluated properties not being depleted	203,888	221,281
Less accumulated depletion and impairment	(4,578,831 )	(4,514,183 )
Oil and natural gas properties, net	1,328,930	1,195,854
Midstream service assets, net	128,941	126,240
Other fixed assets, net	41,415	44,773
Property and equipment, net	1,499,286	1,366,867
Derivatives	12,807	8,718
Investment in equity method investee	249,492	243,953
Other assets, net	12,005	8,031
Total assets	\$1,941,254	\$1,782,346
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$10,777	\$15,054
Undistributed revenue and royalties	32,166	26,838
Accrued capital expenditures	53,700	30,845
Derivatives	653	20,993
Other current liabilities	74,787	94,215
Total current liabilities	172,083	187,945
Long-term debt, net	1,390,277	1,353,909
Derivatives	—	5,694
Asset retirement obligations	51,034	50,604
Other noncurrent liabilities	3,457	3,621
Total liabilities	1,616,851	1,601,773
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized and zero issued as of June 30, 2017 and December 31, 2016	—	—
Common stock, \$0.01 par value, 450,000,000 shares authorized and 242,534,185 and 241,929,070 issued and outstanding as of June 30, 2017 and December 31, 2016,	2,425	2,419

respectively

Additional paid-in capital	2,410,674	2,396,236
Accumulated deficit	(2,088,696 )	(2,218,082 )
Total stockholders' equity	324,403	180,573
Total liabilities and stockholders' equity	\$1,941,254	\$1,782,346

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

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Laredo Petroleum, Inc.  
 Consolidated statements of operations  
 (in thousands, except per share data)  
 (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenues:				
Oil, NGL and natural gas sales	\$ 141,837	\$ 102,526	\$ 280,573	\$ 175,668
Midstream service revenues	2,703	1,632	5,702	3,433
Sales of purchased oil	42,461	42,615	89,732	74,229
Total revenues	187,001	146,773	376,007	253,330
Costs and expenses:				
Lease operating expenses	20,104	19,225	37,096	39,743
Production and ad valorem taxes	8,472	7,982	17,253	14,417
Midstream service expenses	896	1,178	1,812	1,787
Costs of purchased oil	44,020	44,012	94,276	76,958
General and administrative	22,008	20,502	47,605	39,953
Depletion, depreciation and amortization	38,003	34,177	72,115	75,655
Impairment expense	—	963	—	162,027
Other operating expenses	1,437	860	2,463	1,704
Total costs and expenses	134,940	128,899	272,620	412,244
Operating income (loss)	52,061	17,874	103,387	(158,914 )
Non-operating income (expense):				
Gain (loss) on derivatives, net	28,897	(68,518 )	65,568	(50,633 )
Income from equity method investee	2,471	3,696	5,539	5,994
Interest expense	(23,173 )	(23,512 )	(45,893 )	(47,217 )
Interest and other income	49	11	194	110
Write-off of debt issuance costs	—	(842 )	—	(842 )
Gain (loss) on disposal of assets, net	805	(141 )	591	(301 )
Non-operating income (expense), net	9,049	(89,306 )	25,999	(92,889 )
Income (loss) before income taxes	61,110	(71,432 )	129,386	(251,803 )
Income tax:				
Deferred	—	—	—	—
Total income tax	—	—	—	—
Net income (loss)	\$ 61,110	\$ (71,432 )	\$ 129,386	\$ (251,803 )
Net income (loss) per common share:				
Basic	\$ 0.26	\$ (0.33 )	\$ 0.54	\$ (1.17 )
Diluted	\$ 0.25	\$ (0.33 )	\$ 0.53	\$ (1.17 )
Weighted-average common shares outstanding:				
Basic	239,231	217,564	238,870	214,562
Diluted	244,417	217,564	244,385	214,562

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

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Laredo Petroleum, Inc.

Consolidated statement of stockholders' equity

(in thousands)

(Unaudited)

	Common Stock		Additional paid-in capital	Treasury Stock (at cost)		Accumulated deficit	Total
	Shares	Amount		Shares	Amount		
Balance, December 31, 2016	241,929	\$2,419	\$2,396,236	—	\$ —	\$(2,218,082)	\$180,573
Restricted stock awards	1,185	12	(12 )	—	—	—	—
Restricted stock forfeitures	(232 )	(2 )	2	—	—	—	—
Performance share conversion	150	2	(2 )	—	—	—	—
Vested stock exchanged for tax withholding	—	—	—	542	(7,597)	—	(7,597 )
Retirement of treasury stock	(542 )	(6 )	(7,591 )	(542 )	7,597	—	—
Exercise of stock options	44	—	358	—	—	—	358
Stock-based compensation	—	—	21,683	—	—	—	21,683
Net income	—	—	—	—	—	129,386	129,386
Balance, June 30, 2017	242,534	\$2,425	\$2,410,674	—	\$ —	\$(2,088,696)	\$324,403

The accompanying notes are an integral part of this unaudited consolidated financial statement.

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Laredo Petroleum, Inc.

Consolidated statements of cash flows

(in thousands)

(Unaudited)

	Six months ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income (loss)	\$ 129,386	\$(251,803)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and amortization	72,115	75,655
Impairment expense	—	162,027
Non-cash stock-based compensation, net of amounts capitalized	17,911	9,911
Mark-to-market on derivatives:		
(Gain) loss on derivatives, net	(65,568 )	50,633
Cash settlements received for matured derivatives, net	21,156	113,319
Cash settlements received for early terminations of derivatives, net	4,234	80,000
Change in net present value of derivative deferred premiums	111	133
Cash premiums paid for derivatives	(12,094 )	(84,263 )
Amortization of debt issuance costs	2,094	2,187
Write-off of debt issuance costs	—	842
Income from equity method investee	(5,539 )	(5,994 )
Cash settlement of performance unit awards	—	(6,394 )
Other, net	1,414	2,009
Decrease (increase) in accounts receivable	14,760	(844 )
Increase in other assets	(3,516 )	(117 )
(Decrease) increase in accounts payable	(4,277 )	319
Increase (decrease) in undistributed revenues and royalties	5,328	(9,088 )
(Decrease) increase in other accrued liabilities	(20,449 )	295
Decrease in other noncurrent liabilities	(165 )	(196 )
Net cash provided by operating activities	156,901	138,631
Cash flows from investing activities:		
Capital expenditures:		
Oil and natural gas properties	(232,219 )	(197,042 )
Midstream service assets	(6,117 )	(3,425 )
Other fixed assets	(2,683 )	(832 )
Investment in equity method investee	—	(42,681 )
Proceeds from dispositions of capital assets, net of selling costs	63,441	350
Net cash used in investing activities	(177,578 )	(243,630 )
Cash flows from financing activities:		
Borrowings on Senior Secured Credit Facility	90,000	120,000
Payments on Senior Secured Credit Facility	(55,000 )	(144,682 )
Proceeds from issuance of common stock, net of offering costs	—	119,310
Purchase of treasury stock	(7,597 )	(1,541 )
Proceeds from exercise of employee stock options	358	67
Payments for debt issuance costs	(4,732 )	—
Net cash provided by financing activities	23,029	93,154
Net increase (decrease) in cash and cash equivalents	2,352	(11,845 )
Cash and cash equivalents, beginning of period	32,672	31,154

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Cash and cash equivalents, end of period	\$35,024	\$19,309
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Condensed notes to the consolidated financial statements  
(Unaudited)

Note 1—Organization

Laredo Petroleum, Inc. ("Laredo"), together with its wholly-owned subsidiaries, Laredo Midstream Services, LLC ("LMS") and Garden City Minerals, LLC ("GCM"), is an independent energy company focused on the acquisition, exploration and development of oil and natural gas properties, and the gathering of oil and liquids-rich natural gas from such properties, primarily in the Permian Basin in West Texas. LMS and GCM (together, the "Guarantors") guarantee all of Laredo's debt instruments. In these notes, the "Company" refers to Laredo, LMS and GCM collectively, unless the context indicates otherwise. All amounts, dollars and percentages presented in these unaudited consolidated financial statements and the related notes are rounded and therefore approximate.

LMS holds 49% of the ownership units of Medallion Gathering & Processing, LLC, a Texas limited liability company formed on October 12, 2012, which, together with its wholly-owned subsidiaries (collectively, "Medallion"), is focused on developing midstream solutions and providing midstream infrastructure in the Midland Basin. The Company accounts for Medallion as an equity method investment.

The Company operates in two business segments: (i) exploration and production and (ii) midstream and marketing.

The exploration and production segment is engaged in the acquisition, exploration and development of oil and natural gas properties. The midstream and marketing segment provides Laredo's exploration and production segment and third parties with products and services that need to be delivered by midstream infrastructure, including oil and liquids-rich natural gas gathering services as well as rig fuel, natural gas lift and water delivery and takeaway.

Note 2—Basis of presentation and significant accounting policies

a. Basis of presentation

The accompanying unaudited consolidated financial statements were derived from the historical accounting records of the Company and reflect the historical financial position, results of operations and cash flows for the periods described herein. The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All material intercompany transactions and account balances have been eliminated in the consolidation of accounts. The Company uses the equity method of accounting to record its net interests when the Company holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence but does not control the entity. Under the equity method, the Company's proportionate share of the investee's net income is included in the unaudited consolidated statements of operations. See Note 2.h for additional discuss