

Laredo Petroleum, Inc.
Form 10-Q
August 04, 2016

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, 2016

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

(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 ☐ No ☒

Number of shares of registrant's common stock outstanding as of August 1, 2016: 240,124,869

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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 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;
- uncertainties about the estimates of our 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;
- 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, including but not limited to our hedging strategies;
- competition in the oil and natural gas industry;
- changes in the regulatory environment and changes in 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;

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, 2015 (the "2015 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.

PART I

Item 1. Consolidated Financial Statements (Unaudited)

Laredo Petroleum, Inc.

Consolidated balance sheets

(in thousands, except share data)

(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$19,309	\$31,154
Accounts receivable, net	88,543	87,699
Derivatives	88,965	198,805
Other current assets	14,445	14,574
Total current assets	211,262	332,232
Property and equipment:		
Oil and natural gas properties, full cost method:		
Evaluated properties	5,309,151	5,103,635
Unevaluated properties not being depleted	114,507	140,299
Less accumulated depletion and impairment	(4,448,482)	(4,218,942)
Oil and natural gas properties, net	975,176	1,024,992
Midstream service assets, net	128,052	131,725
Other fixed assets, net	40,951	43,538
Property and equipment, net	1,144,179	1,200,255
Derivatives	32,680	77,443
Investment in equity method investee	213,616	192,524
Other assets, net	8,414	10,833
Total assets	\$1,610,151	\$1,813,287
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$14,500	\$14,181
Undistributed revenue and royalties	25,452	34,540
Accrued capital expenditures	39,860	61,872
Derivatives	1,480	—
Other current liabilities	72,520	106,222
Total current liabilities	153,812	216,815
Long-term debt, net	1,392,877	1,416,226
Derivatives	3,740	—
Asset retirement obligations	46,716	44,759
Other noncurrent liabilities	3,844	4,040
Total liabilities	1,600,989	1,681,840
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized and zero issued as of June 30, 2016 and December 31, 2015	—	—
Common stock, \$0.01 par value, 450,000,000 shares authorized and 227,197,566 and 213,808,003 issued and outstanding as of June 30, 2016 and December 31, 2015,	2,272	2,138

respectively

Additional paid-in capital	2,216,036	2,086,652
Accumulated deficit	(2,209,146)	(1,957,343)
Total stockholders' equity	9,162	131,447
Total liabilities and stockholders' equity	\$1,610,151	\$1,813,287

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,	
	2016	2015	2016	2015
Revenues:				
Oil, NGL and natural gas sales	\$102,526	\$125,554	\$175,668	\$243,672
Midstream service revenues	1,632	1,726	3,433	3,035
Sales of purchased oil	42,615	55,051	74,229	86,318
Total revenues	146,773	182,331	253,330	333,025
Costs and expenses:				
Lease operating expenses	19,225	29,206	39,743	61,586
Production and ad valorem taxes	7,982	9,500	14,417	18,586
Midstream service expenses	1,178	1,597	1,787	3,171
Minimum volume commitments	—	3,579	—	5,235
Costs of purchased oil	44,012	54,417	76,958	85,617
General and administrative	20,502	23,208	39,953	45,063
Restructuring expenses	—	—	—	6,042
Accretion of asset retirement obligations	860	593	1,704	1,172
Depletion, depreciation and amortization	34,177	72,112	75,655	144,054
Impairment expense	963	489,599	162,027	490,477
Total costs and expenses	128,899	683,811	412,244	861,003
Operating income (loss)	17,874	(501,480)	(158,914)	(527,978)
Non-operating income (expense):				
Loss on derivatives, net	(68,518)	(63,899)	(50,633)	(744)
Income from equity method investee	3,696	2,914	5,994	2,481
Interest expense	(23,512)	(23,970)	(47,217)	(56,384)
Interest and other income	11	173	110	296
Loss on early redemption of debt	—	(31,537)	—	(31,537)
Write-off of debt issuance costs	(842)	—	(842)	—
Loss on disposal of assets, net	(141)	(1,081)	(301)	(1,843)
Non-operating expense, net	(89,306)	(117,400)	(92,889)	(87,731)
Loss before income taxes	(71,432)	(618,880)	(251,803)	(615,709)
Income tax benefit:				
Deferred	—	221,846	—	218,203
Total income tax benefit	—	221,846	—	218,203
Net loss	\$(71,432)	\$(397,034)	\$(251,803)	\$(397,506)
Net loss per common share:				
Basic	\$(0.33)	\$(1.88)	\$(1.17)	\$(2.13)
Diluted	\$(0.33)	\$(1.88)	\$(1.17)	\$(2.13)
Weighted-average common shares outstanding:				
Basic	217,564	211,078	214,562	186,886
Diluted	217,564	211,078	214,562	186,886

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

Laredo Petroleum, Inc.

Consolidated statement of stockholders' equity

(in thousands)

(Unaudited)

	Common Stock		Additional	Treasury Stock		Accumulated	
	Shares	Amount	paid-in	Shares	Amount	deficit	Total
			capital				
Balance, December 31, 2015	213,808	\$2,138	\$2,086,652	—	\$ —	\$(1,957,343)	\$131,447
Restricted stock awards	2,968	30	(30)	—	—	—	—
Restricted stock forfeitures	(221)	(2)	2	—	—	—	—
Vested restricted stock exchanged for tax withholding	—	—	—	288	(1,541	—	(1,541)
Retirement of treasury stock	(288)	(3)	(1,538)	(288)	1,541	—	—
Exercise of employee stock options	6	—	67	—	—	—	67
Equity issuance, net of offering costs	10,925	109	119,201	—	—	—	119,310
Stock-based compensation	—	—	11,682	—	—	—	11,682
Net loss	—	—	—	—	—	(251,803)	(251,803)
Balance, June 30, 2016	227,198	\$2,272	\$2,216,036	—	\$ —	\$(2,209,146)	\$9,162

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

Laredo Petroleum, Inc.

Consolidated statements of cash flows

(in thousands)

(Unaudited)

	Six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(251,803)	\$(397,506)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred income tax benefit	—	(218,203)
Depletion, depreciation and amortization	75,655	144,054
Impairment expense	162,027	490,477
Loss on early redemption of debt	—	31,537
Non-cash stock-based compensation, net of amounts capitalized	9,911	11,056
Mark-to-market on derivatives:		
Loss on derivatives, net	50,633	744
Cash settlements received for matured derivatives, net	113,319	109,737
Cash settlements received for early terminations of derivatives, net	80,000	—
Change in net present value of deferred premiums paid for derivatives	133	88
Cash premiums paid for derivatives	(84,263)	(2,670)
Amortization of debt issuance costs	2,187	2,501
Write-off of debt issuance costs	842	—
Income from equity method investee	(5,994)	(2,481)
Cash settlement of performance unit awards	(6,394)	(2,738)
Other, net	2,009	3,012
(Increase) decrease in accounts receivable	(844)	16,586
Increase in other assets	(117)	(9,097)
Increase (decrease) in accounts payable	319	(15,744)
Decrease in undistributed revenues and royalties	(9,088)	(20,699)
Increase (decrease) in other accrued liabilities	295	(28,341)
(Decrease) increase in other noncurrent liabilities	(196)	318
Increase in fair value of performance unit awards	—	1,674
Net cash provided by operating activities	138,631	114,305
Cash flows from investing activities:		
Capital expenditures:		
Oil and natural gas properties	(197,042)	(374,508)
Midstream service assets	(3,425)	(34,137)
Other fixed assets	(832)	(6,541)
Investment in equity method investee	(42,681)	(14,495)
Proceeds from dispositions of capital assets, net of costs	350	35
Net cash used in investing activities	(243,630)	(429,646)
Cash flows from financing activities:		
Borrowings on Senior Secured Credit Facility	120,000	300,000
Payments on Senior Secured Credit Facility	(144,682)	(475,000)
Issuance of March 2023 Notes	—	350,000
Redemption of January 2019 Notes	—	(576,200)
Proceeds from issuance of common stock, net of offering costs	119,310	754,163
Purchase of treasury stock	(1,541)	(2,591)

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Proceeds from exercise of employee stock options	67	—
Payments for debt issuance costs	—	(6,759)
Net cash provided by financing activities	93,154	343,613
Net (decrease) increase in cash and cash equivalents	(11,845)	28,272
Cash and cash equivalents, beginning of period	31,154	29,321
Cash and cash equivalents, end of period	\$ 19,309	\$ 57,593

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

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

Note 1—Organization

Laredo Petroleum, Inc. ("Laredo"), together with its 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 transportation of oil and 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.

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 primarily in the Permian Basin in West Texas. 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 natural gas gathering services as well as rig fuel, natural gas lift and water delivery and takeaway in and around Laredo's primary production corridors.

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 (loss) is included in the unaudited consolidated statements of operations. See Note 14 for additional discussion of the Company's equity method investment.

The accompanying consolidated financial statements have not been audited by the Company's independent registered public accounting firm, except that the consolidated balance sheet as of December 31, 2015 is derived from audited consolidated financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all necessary adjustments to present fairly the Company's financial position as of June 30, 2016, results of operations for the three and six months ended June 30, 2016 and 2015 and cash flows for the six months ended June 30, 2016 and 2015.

Certain disclosures have been condensed or omitted from these unaudited consolidated financial statements. Accordingly, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the 2015 Annual Report.

b. Use of estimates in the preparation of interim unaudited consolidated financial statements

The preparation of the accompanying unaudited consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes these estimates are reasonable, actual results could differ. The interim results reflected in the unaudited consolidated financial statements are not necessarily indicative of the results that may be expected for other interim periods or for the full year.

Significant estimates include, but are not limited to, (i) estimates of the Company's reserves of oil, NGL and natural gas, (ii) future cash flows from oil and natural gas properties, (iii) depletion, depreciation and amortization, (iv) asset retirement obligations, (v) stock-based compensation, (vi) deferred income taxes, (vii) fair value of assets acquired and liabilities assumed in an acquisition and (viii) fair values of derivatives, deferred premiums and performance unit awards. As fair value is a market-based measurement, it is determined based on the assumptions that would be used by

market participants. These estimates and assumptions are based on management's best judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets and volatile equity and energy markets have combined to increase the uncertainty inherent in such estimates and assumptions. Management believes its estimates and

Laredo Petroleum, Inc.

Condensed notes to the consolidated financial statements

(Unaudited)

assumptions to be reasonable under the circumstances. As future events and their effects cannot be determined with precision, actual values and results could differ from these estimates. Any changes in estimates resulting from future changes in the economic environment will be reflected in the financial statements in future periods.

c. Reclassifications

Certain amounts in the accompanying unaudited consolidated financial statements have been reclassified to conform to the 2016 presentation. These reclassifications had no impact to previously reported net loss, stockholders' equity or cash flows.

d. Accounts receivable

The Company sells produced oil, NGL and natural gas and purchased oil to various customers and participates with other parties in the development and operation of oil and natural gas properties. The Company's accounts receivable are generally unsecured. Accounts receivable for joint interest billings are recorded as amounts billed to customers less an allowance for doubtful accounts.

Joint interest operations amounts are considered past due after 30 days. The Company determines joint interest operations accounts receivable allowances based on management's assessment of the creditworthiness of the joint interest owners. Additionally, as the operator of the majority of its wells, the Company has the ability to realize some or all of the receivables through netting of anticipated future production revenues. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses, current receivables aging and existing industry and economic data. The Company reviews its allowance for doubtful accounts quarterly. Past due amounts greater than 90 days and over a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote.

Accounts receivable consisted of the following components for the periods presented:

(in thousands)	June 30, December	
	2016	31, 2015
Oil, NGL and natural gas sales	\$42,629	\$ 25,582
Joint operations, net ⁽¹⁾	18,425	21,375
Sales of purchased oil and other products	15,000	11,775
Matured derivatives	12,223	27,469
Other	266	1,498
Total	\$88,543	\$ 87,699

(1) Accounts receivable for joint operations are presented net of an allowance for doubtful accounts of \$0.2 million as of both June 30, 2016 and December 31, 2015.

e. Derivatives

The Company uses derivatives to reduce exposure to fluctuations in the prices of oil, NGL and natural gas. By removing a significant portion of the price volatility associated with future production, the Company expects to mitigate, but not eliminate, the potential effects of variability in cash flows from operations due to fluctuations in commodity prices. These transactions are in the form of puts, swaps, collars and, in prior periods, basis swaps. Derivatives are recorded at fair value and are presented on a net basis on the unaudited consolidated balance sheets as assets or liabilities. The Company nets the fair value of derivatives by counterparty where the right of offset exists. The Company determines the fair value of its derivatives by utilizing pricing models for substantially similar instruments. Inputs to the pricing models include publicly available prices and forward price curves generated from a compilation of data gathered from third parties. See Note 9 for discussion regarding the fair value of the Company's derivatives.

The Company's derivatives were not designated as hedges for accounting purposes for any of the periods presented. Accordingly, the changes in fair value are recognized in the unaudited consolidated statements of operations in the

period of change. Gains and losses on derivatives are included in cash flows from operating activities. See Notes 8 and 9 for discussion regarding the Company's derivatives.

Laredo Petroleum, Inc.

Condensed notes to the consolidated financial statements

(Unaudited)

f. Property and equipment

The following table sets forth the Company's property and equipment as of the periods presented:

(in thousands)	June 30, 2016	December 31, 2015
Evaluated oil and natural gas properties	\$5,309,151	\$5,103,635
Less accumulated depletion and impairment	(4,448,482)	(4,218,942)
Evaluated oil and natural gas properties, net	860,669	884,693
Unevaluated properties not being depleted	114,507	140,299
Midstream service assets	148,227	147,811
Less accumulated depreciation	(20,175)	(16,086)
Midstream service assets, net	128,052	131,725
Depreciable other fixed assets	46,255	46,799
Less accumulated depreciation and amortization	(20,218)	(18,169)
Depreciable other fixed assets, net	26,037	28,630
Land	14,914	14,908

Total property and equipment, net	\$1,144,179	\$1,200,255
-----------------------------------	-------------	-------------

For the three months ended June 30, 2016 and 2015, depletion expense was \$7.06 per barrel of oil equivalent ("BOE") sold and \$16.19 per BOE sold, respectively. For the six months ended June 30, 2016 and 2015, depletion expense was \$8.01 per BOE sold and \$16.13 per BOE sold, respectively.

The Company uses the full cost method of accounting for its oil and natural gas properties. Under this method, all acquisition, exploration and development costs, including certain related employee costs, incurred for the purpose of finding oil, NGL and natural gas are capitalized and depleted on a composite unit of production method based on proved oil, NGL and natural gas reserves. Such amounts include the cost of drilling and equipping productive wells, dry hole costs, lease acquisition costs, delay rentals and other costs related to such activities. Costs, including related employee costs, associated with production and general corporate activities are expensed in the period incurred. Sales of oil and natural gas properties, whether or not being depleted currently, are accounted for as adjustments of capitalized costs, with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil, NGL and natural gas.

The Company excludes the costs directly associated with acquisition and evaluation of unevaluated properties from the depletion calculation until it is determined whether or not proved reserves can be assigned to the properties. The Company capitalizes a portion of its interest costs on its unevaluated properties. Capitalized interest becomes a part of the cost of the unevaluated properties and is subject to depletion when proved reserves can be assigned to the associated properties. All items classified as unevaluated property are assessed on a quarterly basis for possible impairment or reduction in value. The assessment includes consideration of the following factors, among others: intent to drill, remaining lease term, geological and geophysical evaluations, drilling results and activity, the assignment of evaluated reserves and the economic viability of development if proved reserves are assigned. During any period in which these factors indicate an impairment, the cumulative drilling costs incurred to date for such property and all or a portion of the associated leasehold costs are transferred to the full cost pool and are then subject to depletion.

The full cost ceiling is based principally on the estimated future net revenues from proved oil and natural gas properties discounted at 10%. Per the SEC guidelines, companies are required to use the unweighted arithmetic average first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period before differentials ("Benchmark Prices"). The Benchmark Prices are then adjusted for quality, transportation

fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the wellhead ("Realized Prices"). The Realized Prices are utilized to calculate the discounted future net revenues in the full cost ceiling calculation.

Laredo Petroleum, Inc.

Condensed notes to the consolidated financial statements

(Unaudited)

In the event the unamortized cost of evaluated oil and natural gas properties being depleted exceeds the full cost ceiling, as defined by the SEC, the excess is charged to expense in the period such excess occurs. Once incurred, a write-down of oil and natural gas properties is not reversible.

The following table presents the Benchmark Prices, Realized Prices and the corresponding non-cash full cost ceiling impairments recorded as of the periods presented:

	For the quarters ended				
	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Benchmark Prices					
Oil (\$/Bbl)	\$39.63	\$42.77	\$46.79	\$55.73	\$68.17
NGL (\$/Bbl)	\$17.08	\$17.51	\$18.75	\$21.87	\$26.73
Natural gas (\$/MMBtu)	\$2.17	\$2.31	\$2.47	\$2.89	\$3.22
Realized Prices					
Oil (\$/Bbl)	\$37.96	\$41.33	\$45.58	\$54.28	\$66.68
NGL (\$/Bbl)	\$10.80	\$11.25	\$12.50	\$15.25	\$19.56
Natural gas (\$/Mcf)	\$1.64	\$1.75	\$1.89	\$2.30	\$2.62
Non-cash full cost ceiling impairment (in thousands)	\$—	\$161,064	\$975,011	\$906,420	\$488,046

Full cost ceiling impairment expense is included in the "Impairment expense" line item in the unaudited consolidated statements of operations and in the financial information provided for the Company's exploration and production segment presented in Note 16.

g. Long-lived assets and inventory

Impairment losses are recorded on property and equipment used in operations and other long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Impairment is measured based on the excess of the carrying amount over the fair value of the asset.

Materials and supplies inventory used in developing oil and natural gas properties and midstream service assets are carried at the lower of cost or market ("LCM") with cost determined using the weighted-average cost method and are included in "Other current assets" and "Other assets, net" on the unaudited consolidated balance sheets. The market price for materials and supplies is determined utilizing a replacement cost approach (Level 2).

Beginning at March 31, 2016, frac pit water inventory used in developing oil and natural gas properties is carried at LCM with cost determined using the weighted-average cost method and is included in "Other current assets" on the unaudited consolidated balance sheets. The market price for frac pit water inventory is determined utilizing a replacement cost approach.

The minimum volume of product in a pipeline system that enables the system to operate is known as line-fill and is generally not available to be withdrawn from the pipeline system until the expiration of the transportation contract. The Company owns oil line-fill in third-party pipelines, which is accounted for at LCM with cost determined using the weighted-average cost method and is included in "Other assets, net" on the unaudited consolidated balance sheets. The LCM adjustment is determined utilizing a quoted market price adjusted for regional price differentials (Level 2).

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The following table presents inventory impairments recorded as of the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Inventory impairments:				
Materials and supplies ⁽¹⁾	\$963	\$1,553	\$963	\$2,320
Line-fill ⁽²⁾	—	—	—	111
Total inventory impairments	\$963	\$1,553	\$963	\$2,431

(1) Included in "Impairment expense" in the unaudited consolidated statements of operations and in "Impairment expense" for the Company's exploration and production segment presented in Note 16.

(2) Included in "Impairment expense" in the unaudited consolidated statements of operations and in "Impairment expense" for the Company's midstream and marketing segment presented in Note 16.

h. Debt issuance costs

Debt issuance fees, which are recorded at cost, net of amortization, are amortized over the life of the respective debt agreements utilizing the effective interest and straight-line methods. The Company capitalized \$6.8 million of debt issuance costs during the six months ended June 30, 2015 mainly as a result of the issuance of the March 2023 Notes (as defined below). No debt issuance costs were capitalized in the six months ended June 30, 2016. The Company had total debt issuance costs of \$20.9 million and \$23.9 million, net of accumulated amortization of \$19.2 million and \$17.0 million, as of June 30, 2016 and December 31, 2015, respectively.

The Company wrote-off approximately \$0.8 million of debt issuance costs during the six months ended June 30, 2016 as a result of changes in the borrowing base and aggregate elected commitment of the Senior Secured Credit Facility, which are included in the unaudited consolidated statements of operations in the "Write-off of debt issuance costs" line item. During the six months ended June 30, 2015, the Company wrote-off approximately \$6.6 million of debt issuance costs as a result of the early redemption of the January 2019 Notes (as defined below), which are included in the unaudited consolidated statements of operations in the "Loss on early redemption of debt" line item. Unamortized debt issuance costs related to the Company's senior unsecured notes are presented in "Long-term debt, net" on the Company's unaudited consolidated balance sheets. Unamortized debt issuance costs related to the Senior Secured Credit Facility are presented in "Other assets, net" on the Company's unaudited consolidated balance sheets. See Note 5.g for additional discussion of debt issuance costs.

Future amortization expense of debt issuance costs as of the period presented is as follows:

(in thousands)	June 30, 2016
Remaining 2016	\$2,092
2017	4,238
2018	4,068
2019	2,915
2020	3,005
Thereafter	4,585
Total	\$20,903

i. Other current assets and liabilities

Other current assets consist of the following components for the periods presented:

(in thousands)	June 30, December 31, 2015	
Inventory ⁽¹⁾	\$6,986	\$ 6,974

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Prepaid expenses and other	7,459	7,600
Total other current assets	\$14,445	\$ 14,574

(1) See Note 2.g for discussion of inventory held by the Company.

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Other current liabilities consist of the following components for the periods presented:

(in thousands)	June 30, December	
	2016	31, 2015
Accrued interest payable	\$24,161	\$24,208
Costs of purchased oil payable	15,629	12,189
Lease operating expense payable	11,570	13,205
Accrued compensation and benefits	8,720	14,342
Capital contribution payable to equity method investee ⁽¹⁾	—	27,583
Other accrued liabilities	12,440	14,695
Total other current liabilities	\$72,520	\$106,222

(1) See Notes 14 and 15 for additional discussion regarding our equity method investee.

j. Asset retirement obligations

Asset retirement obligations associated with the retirement of tangible long-lived assets are recognized as a liability in the period in which they are incurred and become determinable. The associated asset retirement costs are part of the carrying amount of the long-lived asset. Subsequently, the asset retirement cost included in the carrying amount of the related long-lived asset is charged to expense through depletion, or for midstream service asset retirement cost through depreciation, of the associated asset. Changes in the liability due to the passage of time are recognized as an increase in the carrying amount of the liability and as corresponding accretion expense.

The fair value of additions to the asset retirement obligation liability is measured using valuation techniques consistent with the income approach, which converts future cash flows into a single discounted amount. Significant inputs to the valuation include: (i) estimated plug and abandonment cost per well based on Company experience, (ii) estimated remaining life per well, (iii) estimated removal and/or remediation costs for midstream service assets, (iv) estimated remaining life of midstream service assets, (v) future inflation factors and (vi) the Company's average credit adjusted risk-free rate. Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including, in addition to those noted above, the ultimate settlement of these amounts, the ultimate timing of such settlement and changes in legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment will be made to the asset balance.

The Company is obligated by contractual and regulatory requirements to remove certain pipeline assets and perform other remediation of the sites where such pipeline assets are located upon the retirement of those assets. However, the fair value of the asset retirement obligation cannot currently be reasonably estimated because the settlement dates are indeterminate. The Company will record an asset retirement obligation for pipeline assets in the periods in which settlement dates become reasonably determinable.

The following reconciles the Company's asset retirement obligation liability for the periods presented:

(in thousands)	Six months ended	Year ended
	June 30, 2016	December 31, 2015
Liability at beginning of period	\$46,306	\$32,198
Liabilities added due to acquisitions, drilling, midstream service asset construction and other	253	2,236
Accretion expense	1,704	2,423
Liabilities settled upon plugging and abandonment	(526)	(146)
Liabilities removed due to sale of property	—	(2,005)
Revision of estimates ⁽¹⁾	—	11,600
Liability at end of period	\$47,737	\$46,306

(1) The revision of estimates that occurred during the year ended December 31, 2015 is mainly related to a change in the estimated remaining life per well due to the decline in commodity prices.

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k. Fair value measurements

The carrying amounts reported in the unaudited consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, undistributed revenue and royalties, accrued capital expenditures and other accrued assets and liabilities approximate their fair values. See Note 5.f for fair value disclosures related to the Company's debt obligations. The Company carries its derivatives at fair value. See Note 9 for details regarding the fair value of the Company's derivatives.

l. Treasury stock

Laredo's employees may elect to have the Company withhold shares of stock to satisfy their tax withholding obligations that arise upon the lapse of restrictions on their stock awards. Such treasury stock is recorded at cost and retired upon acquisition.

m. Compensation awards

Stock-based compensation expense, net of amounts capitalized, is included in "General and administrative" in the unaudited consolidated statements of operations over the awards' vesting periods and is based on the awards' grant date fair value. The Company utilizes the closing stock price on the grant date, less an expected forfeiture rate, to determine the fair value of service vesting restricted stock awards and a Black-Scholes pricing model to determine the fair values of service vesting restricted stock option awards. The Company utilizes a Monte Carlo simulation prepared by an independent third party to determine the fair values of the performance share awards and, in prior periods, the performance unit awards. The Company capitalizes a portion of stock-based compensation for employees who are directly involved in the acquisition, exploration and development of its oil and gas properties into the full cost pool. Capitalized stock-based compensation is included as an addition to "Oil and natural gas properties" in the unaudited consolidated balance sheets. See Note 6 for further discussion regarding the restricted stock awards, restricted stock option awards, performance share awards and performance unit awards.

n. Environmental

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, among other things, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed in the period incurred. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment or remediation is probable and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments is fixed and readily determinable. Management believes no materially significant liabilities of this nature existed as of June 30, 2016 or December 31, 2015.

o. Non-cash investing and supplemental cash flow information

The following presents the non-cash investing and supplemental cash flow information for the periods presented:

	Six months ended	
	June 30,	
(in thousands)	2016	2015
Non-cash investing information:		
Change in accrued capital expenditures	\$(22,012)	\$(53,209)
Change in accrued capital contribution to equity method investee ⁽¹⁾	\$(27,583)	\$27,917
Capitalized asset retirement cost	\$253	\$1,402
Supplemental cash flow information:		
Capitalized interest	\$115	\$178

(1) See Notes 14 and 15 for additional discussion regarding our equity method investee.

Note 3—Equity offerings

On May 16, 2016, the Company completed the sale of 10,925,000 shares of Laredo's common stock (the "May 2016 Equity Offering") for net proceeds of \$119.3 million, after underwriting discounts, commissions and offering

expenses. See Note 19.e for discussion regarding the completion of an equity offering subsequent to June 30, 2016. On March 5, 2015, the Company completed the sale of 69,000,000 shares of Laredo's common stock (the "March 2015 Equity Offering") for net proceeds of \$754.2 million, after underwriting discounts, commissions and offering expenses. Entities

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affiliated with Warburg Pincus LLC ("Warburg Pincus") purchased 29,800,000 shares in the March 2015 Equity Offering, following which Warburg Pincus owned 41.0% of Laredo's common stock.

Note 4—Divestiture

a. 2015 Divestiture of non-strategic assets

On September 15, 2015, the Company completed the sale of non-strategic and primarily non-operated properties and associated production totaling 6,060 net acres and 123 producing properties in the Midland Basin to a third-party buyer for a purchase price of \$65.5 million. After transaction costs reflecting an economic effective date of July 1, 2015, the net proceeds were \$64.8 million, net of working capital adjustments and post-closing adjustments. The purchase price, excluding post-closing adjustments, was allocated to oil and natural gas properties pursuant to the rules governing full cost accounting.

Effective at closing, the operations and cash flows of these properties were eliminated from the ongoing operations of the Company, and the Company has no continuing involvement in the properties. This divestiture does not represent a strategic shift and will not have a major effect on the Company's operations or financial results.

The following table presents revenues and expenses of the oil and natural gas properties sold included in the accompanying unaudited consolidated statements of operations for the periods presented:

	Three months ended June 30, 2015	Six months ended June 30, 2015
(in thousands)		
Oil, NGL and natural gas sales	\$ 1,970	\$ 4,048
Expenses ⁽¹⁾	2,098	4,710

(1) Expenses include (i) lease operating expense, (ii) production and ad valorem tax expense, (iii) accretion expense and (iv) depletion expense.

Note 5—Debt

a. March 2023 Notes

On March 18, 2015, the Company completed an offering of \$350.0 million in aggregate principal amount of 6 1/4% senior unsecured notes due 2023 (the "March 2023 Notes"). The March 2023 Notes will mature on March 15, 2023 and bear an interest rate of 6 1/4% per annum, payable semi-annually, in cash in arrears on March 15 and September 15 of each year, commencing September 15, 2015. The March 2023 Notes are fully and unconditionally guaranteed on a senior unsecured basis by LMS, GCM and certain of the Company's future restricted subsidiaries, subject to certain automatic customary releases, including the sale, disposition or transfer of all of the capital stock or of all or substantially all of the assets of a subsidiary guarantor to one or more persons that are not the Company or a restricted subsidiary, exercise of legal defeasance or covenant defeasance options or satisfaction and discharge of the applicable indenture, designation of a subsidiary guarantor as a non-guarantor restricted subsidiary or as an unrestricted subsidiary in accordance with the applicable indenture, release from guarantee under the Senior Secured Credit Facility, or liquidation or dissolution (collectively, the "Releases").

b. January 2022 Notes

On January 23, 2014, the Company completed an offering of \$450.0 million in aggregate principal amount of 5 5/8% senior unsecured notes due 2022 (the "January 2022 Notes"). The January 2022 Notes will mature on January 15, 2022 and bear an interest rate of 5 5/8% per annum, payable semi-annually, in cash in arrears on January 15 and July 15 of each year, commencing July 15, 2014. The January 2022 Notes are fully and unconditionally guaranteed on a senior unsecured basis by LMS, GCM and certain of the Company's future restricted subsidiaries, subject to certain Releases.

c. May 2022 Notes

On April 27, 2012, the Company completed an offering of \$500.0 million in aggregate principal amount of 7 3/8% senior unsecured notes due 2022 (the "May 2022 Notes"). The May 2022 Notes will mature on May 1, 2022 and bear an interest rate of 7 3/8% per annum, payable semi-annually, in cash in arrears on May 1 and November 1 of each year, commencing November 1, 2012. The May 2022 Notes are fully and unconditionally guaranteed on a senior unsecured basis by LMS, GCM and certain of the Company's future restricted subsidiaries, subject to certain Releases.

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d. January 2019 Notes

On January 20, 2011, the Company completed an offering of \$350.0 million 9 1/2% senior unsecured notes due 2019 (the "January Notes") and on October 19, 2011, the Company completed an offering of an additional \$200.0 million 9 1/2% senior unsecured notes due 2019 (the "October Notes" and together with the January Notes, the "January 2019 Notes"). The January 2019 Notes were due to mature on February 15, 2019 and bore an interest rate of 9 1/2% per annum, payable semi-annually, in cash in arrears on February 15 and August 15 of each year. The January 2019 Notes were fully and unconditionally guaranteed on a senior unsecured basis by LMS, GCM and certain of the Company's future restricted subsidiaries, subject to certain Releases.

On April 6, 2015 (the "Redemption Date"), utilizing a portion of the proceeds from the March 2015 Equity Offering and the March 2023 Notes offering, the entire \$550.0 million outstanding principal amount of the January 2019 Notes was redeemed at a redemption price of 104.750% of the principal amount of the January 2019 Notes, plus accrued and unpaid interest up to the Redemption Date. The Company recognized a loss on extinguishment of \$31.5 million related to the difference between the redemption price and the net carrying amount of the extinguished January 2019 Notes.

e. Senior Secured Credit Facility

As of June 30, 2016, the Fourth Amended and Restated Credit Agreement (as amended, the "Senior Secured Credit Facility"), which matures on November 4, 2018, had a maximum credit amount of \$2.0 billion, a borrowing base and an aggregate elected commitment of \$815.0 million with \$110.3 million outstanding and was subject to an interest rate of 2.00%. It contains both financial and non-financial covenants, all of which the Company was in compliance with as of June 30, 2016. Laredo is required to pay an annual commitment fee on the unused portion of the financial institutions' commitment of 0.375% to 0.5%, based on the ratio of outstanding revolving credit to the total commitment under the Senior Secured Credit Facility. Additionally, the Senior Secured Credit Facility provides for the issuance of letters of credit, limited to the lesser of total capacity or \$20.0 million. No letters of credit were outstanding as of June 30, 2016 or 2015.

See Note 19.a for discussion of additional borrowings and payments on the Senior Secured Credit Facility subsequent to June 30, 2016.

f. Fair value of debt

The Company has not elected to account for its debt instruments at fair value. The following table presents the carrying amount and fair values of the Company's debt for the periods presented:

	June 30, 2016		December 31, 2015	
(in thousands)	Long-term debt	Fair value	Long-term debt	Fair value
January 2022 Notes	\$450,000	\$426,564	\$450,000	\$388,301
May 2022 Notes	500,000	501,250	500,000	460,000
March 2023 Notes	350,000	349,965	350,000	301,000
Senior Secured Credit Facility	110,318	110,261	135,000	134,993
Total value of debt	\$1,410,318	\$1,388,040	\$1,435,000	\$1,284,294

The fair values of the debt outstanding on the January 2022 Notes, May 2022 Notes and the March 2023 Notes were determined using the June 30, 2016 and December 31, 2015 quoted market price (Level 1) for each respective instrument. The fair values of the outstanding debt on the Senior Secured Credit Facility as of June 30, 2016 and December 31, 2015 were estimated utilizing pricing models for similar instruments (Level 2). See Note 9 for information about fair value hierarchy levels.

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g. Debt issuance costs

The following table summarizes the net presentation of the Company's long-term debt and debt issuance cost on the unaudited consolidated balance sheets for the periods presented:

(in thousands)	June 30, 2016			December 31, 2015		
	Long-term debt	Debt issuance costs, net	Long-term debt, net	Long-term debt	Debt issuance costs, net	Long-term debt, net
January 2022 Notes	\$450,000	\$(5,451)	\$444,549	\$450,000	\$(5,939)	\$444,061
May 2022 Notes	500,000	(6,624)	493,376	500,000	(7,066)	492,934
March 2023 Notes	350,000	(5,366)	344,634	350,000	(5,769)	344,231
Senior Secured Credit Facility ⁽¹⁾	110,318	—	110,318	135,000	—	135,000
Total	\$1,410,318	\$(17,441)	\$1,392,877	\$1,435,000	\$(18,774)	\$1,416,226

(1) Debt issuance costs related to our Senior Secured Credit Facility are recorded in "Other assets, net" on the unaudited consolidated balance sheets.

Note 6—Employee compensation

The Company has a Long-Term Incentive Plan (the "LTIP"), which provides for the granting of incentive awards in the form of restricted stock awards, restricted stock option awards, performance share awards, performance unit awards and other awards. In the second quarter of 2016, shareholders approved an increase in the maximum number of shares of the Company's common stock issuable under the LTIP from 10,000,000 shares to 24,350,000 shares (the "Amendment").

The Company recognizes the fair value of stock-based compensation awards expected to vest over the requisite service period as a charge against earnings, net of amounts capitalized. The Company's stock-based compensation awards are accounted for as equity instruments, and in prior periods, its performance unit awards were accounted for as liability awards. Stock-based compensation is included in "General and administrative" in the unaudited consolidated statements of operations. The Company capitalizes a portion of stock-based compensation for employees who are directly involved in the acquisition, exploration and development of oil and natural gas properties into the full cost pool. Capitalized stock-based compensation is included as an addition to "Oil and natural gas properties" in the unaudited consolidated balance sheets.

a. Restricted stock awards

All restricted stock awards are treated as issued and outstanding in the accompanying unaudited consolidated financial statements. Per the award agreement terms, if an employee terminates employment prior to the restriction lapse date for reasons other than death or disability, the awarded shares are forfeited and canceled and are no longer considered issued and outstanding. If the employee's termination of employment is by reason of death or disability, all of the holder's restricted stock will automatically vest. Historically, restricted stock awards granted to officers and employees vest in a variety of vesting schedules including (i) 33%, 33% and 34% per year beginning on the first anniversary date of the grant, (ii) 50% in year two and 50% in year three, (iii) fully on the first anniversary of the grant date and (iv) fully on the third anniversary of the grant date. Restricted stock awards granted to non-employee directors vest fully on the first anniversary of the grant date.

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The following table reflects the outstanding restricted stock awards for the six months ended June 30, 2016:

(in thousands, except for weighted-average grant date fair values)	Restricted stock awards	Weighted-average grant date fair value (per award)
Outstanding as of December 31, 2015	2,539	\$ 15.26
Granted	2,968	\$ 12.27
Forfeited	(221)	\$ 15.16
Vested ⁽¹⁾	(1,124)	\$ 16.06
Outstanding as of June 30, 2016	4,162	\$ 12.92

The vesting of certain restricted stock awards could result in federal and state income tax expense or benefit related (1) to the difference between the market price of the common stock at the date of vesting and the date of grant. See Note 7 for additional discussion regarding the tax impact of vested stock awards.

The Company utilizes the closing stock price on the grant date to determine the fair value of service vesting restricted stock awards. As of June 30, 2016, unrecognized stock-based compensation related to the restricted stock awards expected to vest was \$44.3 million. Such cost is expected to be recognized over a weighted-average period of 2.26 years.

b. Restricted stock option awards

Restricted stock option awards granted under the LTIP vest and are exercisable in four equal installments on each of the four anniversaries of the grant date. The following table reflects the stock option award activity for the six months ended June 30, 2016:

(in thousands, except for weighted-average price and contractual term)	Restricted stock awards	Weighted-average price (per option)	Weighted-average remaining contractual term (years)
Outstanding as of December 31, 2015	1,778	\$ 17.86	7.91
Granted	1,016	\$ 4.18	
Exercised	(6)	\$ 11.93	
Expired or canceled	(35)	\$ 22.40	
Forfeited	(229)	\$ 13.62	
Outstanding as of June 30, 2016	2,524	\$ 12.69	8.06
Vested and exercisable at end of period ⁽¹⁾	916	\$ 19.49	6.41
Expected to vest at end of period ⁽²⁾	1,600	\$ 8.75	9.02

(1) The vested and exercisable options as of June 30, 2016 had no aggregate intrinsic value.

(2) The restricted stock options expected to vest as of June 30, 2016 had \$6.1 million aggregate intrinsic value. The Company utilizes the Black-Scholes option pricing model to determine the fair value of restricted stock option awards and recognizes the associated expense on a straight-line basis over the four-year requisite service period of the awards. Determining the fair value of equity-based awards requires judgment, including estimating the expected term that stock option awards will be outstanding prior to exercise and the associated volatility. As of June 30, 2016, unrecognized stock-based compensation related to restricted stock option awards expected to vest was \$13.5 million. Such cost is expected to be recognized over a weighted-average period of 2.55 years.

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The assumptions used to estimate the fair value of the 22,324 restricted stock options granted on April 1, 2016 and the 994,022 restricted stock options granted on May 25, 2016 are as follows:

	April 1, 2016	May 25, 2016
Risk-free interest rate ⁽¹⁾	1.44 %	1.58 %
Expected option life ⁽²⁾	6.25 years	6.25 years
Expected volatility ⁽³⁾	61.34 %	61.94 %
Fair value per stock option	\$4.44	\$9.75

(1) United States Treasury yields as of the grant date were utilized for the risk-free interest rate assumption, correlating the treasury yield terms to the expected life of the option.

(2) As the Company had limited exercise history at the time of valuation relating to terminations and modifications, expected option life assumptions were developed using the simplified method in accordance with GAAP.

(3) The Company utilized its own historical volatility in order to develop the expected volatility.

In accordance with the LTIP and stock option agreement, the options granted will become exercisable in accordance with the following schedule based upon the number of full years of the optionee's continuous employment or service with the Company, following the date of grant:

Full years of continuous employment	Incremental percentage of option exercisable	Cumulative percentage of option exercisable
Less than one	— %	— %
One	25 %	25 %
Two	25 %	50 %
Three	25 %	75 %
Four	25 %	100 %

No shares of common stock may be purchased unless the optionee has remained in continuous employment with the Company for one year from the grant date. Unless terminated sooner, the option will expire if and to the extent it is not exercised within 10 years from the grant date. The unvested portion of a stock option award shall expire upon termination of employment, and the vested portion of a stock option award shall remain exercisable for (i) one year following termination of employment by reason of the holder's death or disability, but not later than the expiration of the option period, or (ii) 90 days following termination of employment for any reason other than the holder's death or disability, and other than the holder's termination of employment for cause. Both the unvested and the vested but unexercised portion of a stock option award shall expire upon the termination of the option holder's employment or service by the Company for cause.

c. Performance share awards

The performance share awards granted to management in the second quarter of 2016 (the "2016 Performance Share Awards"), February 27, 2015 (the "2015 Performance Share Awards") and on February 27, 2014 (the "2014 Performance Share Awards") are subject to a combination of market and service vesting criteria. A Monte Carlo simulation prepared by an independent third party was utilized to determine the grant date fair value of these awards. The Company has determined these awards are equity awards and recognizes the associated expense on a straight-line basis over the three-year requisite service period of the awards. These awards will be settled, if at all, in stock at the end of the requisite service period based on the achievement of certain performance criteria.

The 1,742,469 outstanding 2016 Performance Share Awards have a performance period of January 1, 2016 to December 31, 2018, and any shares earned under such awards are expected to be issued in the first quarter of 2019 if the performance criteria are met. The 475,518 outstanding 2015 Performance Share Awards have a performance

period of January 1, 2015 to December 31, 2017, and any shares earned under such awards are expected to be issued in the first quarter of 2018 if the performance criteria are met. The 210,126 outstanding 2014 Performance Share Awards have a performance period of January 1, 2014 to December 31, 2016, and any shares earned under such awards are expected to be issued in the first quarter of 2017 if the performance criteria are met.

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The following table reflects the performance share award activity for the six months ended June 30, 2016:

(in thousands, except for weighted-average grant date fair values)	Performance share awards	Weighted-average grant date fair value (per award)
Outstanding as of December 31, 2015	874	\$ 20.06
Granted	1,801	\$ 17.71
Forfeited	(247)	\$ 19.69
Vested	—	\$ —
Outstanding as of June 30, 2016	2,428	\$ 18.36

As of June 30, 2016, unrecognized stock-based compensation related to the performance share awards was \$35.3 million. Such cost is expected to be recognized over a weighted-average period of 2.47 years.

The assumptions used to estimate the fair value of the 32,495 performance share awards granted on April 1, 2016 and the 1,768,297 performance share awards granted on May 25, 2016 are as follows:

	April 1, 2016	May 25, 2016
Risk-free rate ⁽¹⁾	0.87 %	1.02 %
Dividend yield	— %	— %
Expected volatility ⁽²⁾	71.54 %	74.73 %
Laredo stock closing price on grant date	\$7.71	\$12.36
Fair value per performance share	\$9.83	\$17.86

(1) The risk-free rate was derived using a term-matched zero-coupon yield derived from the Treasury Constant Maturities yield curve on the grant date.

(2) The Company utilized its own historical volatility over a lookback period equal to the length of the remaining performance period from the grant date in order to develop the expected volatility.

d. Stock-based compensation award expense

The following has been recorded to stock-based compensation expense for the periods presented:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Restricted stock award compensation	\$4,692	\$4,520	\$8,460	\$7,458
Restricted stock option award compensation	777	1,279	1,401	1,949
Restricted performance share award compensation	1,593	1,378	1,821	2,273
Total stock-based compensation, gross	7,062	7,177	11,682	11,680
Less amounts capitalized in oil and natural gas properties	(989)	(909)	(1,771)	(624)
Total stock-based compensation, net of amounts capitalized	\$6,073	\$6,268	\$9,911	\$11,056

e. Performance unit awards

The performance unit awards issued to management on February 15, 2013 (the "2013 Performance Unit Awards") and on February 3, 2012 (the "2012 Performance Unit Awards") were subject to a combination of market and service vesting criteria. These awards were accounted for as liability awards as they were settled in cash at the end of the requisite service period based on the achievement of certain performance criteria.

The 44,481 settled 2013 Performance Unit Awards had a performance period of January 1, 2013 to December 31, 2015 and, as their performance criteria were satisfied, they were paid at \$143.75 per unit during the first quarter of 2016. The 27,381 settled 2012 Performance Unit Awards had a performance period of January 1, 2012 to December 31, 2014 and, as their performance criteria were satisfied, they were paid at \$100.00 per unit during the first quarter of 2015.

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For the three and six months ended June 30, 2015, compensation expense for the 2013 Performance Unit Awards is included in "General and administrative" in the Company's unaudited consolidated statements of operations, and as of December 31, 2015, the corresponding liability is included in "Other current liabilities" on the unaudited consolidated balance sheets. Due to the quarterly re-measurement of the fair value of the 2013 Performance Unit Awards as of June 30, 2015, compensation expense for the three and six months ended June 30, 2015 was \$0.7 million and \$1.7 million, respectively.

Note 7—Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carry-forwards. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (loss) in the period that includes the enactment date.

The Company evaluates uncertain tax positions for recognition and measurement in the unaudited consolidated financial statements. To recognize a tax position, the Company determines whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. A tax position that meets the more-likely-than-not threshold is measured to determine the amount of benefit to be recognized in the unaudited consolidated financial statements. The amount of tax benefit recognized with respect to any tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. The Company had no unrecognized tax benefits related to uncertain tax positions in the unaudited consolidated financial statements as of June 30, 2016 or December 31, 2015.

The Company is subject to federal and state income taxes and the Texas franchise tax. Income tax benefit for the periods presented consisted of the following:

	Three months ended June 30, 2016	Six months ended June 30, 2015
(in thousands)	2016	2015
Current taxes	\$—	\$—
Deferred taxes	—221,846	—218,203
Income tax benefit	\$—221,846	\$—218,203

Income tax benefit differed from amounts computed by applying the applicable federal income tax rate of 35% to pre-tax earnings as a result of the following:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Income tax benefit computed by applying the statutory rate	\$25,001	\$216,608	\$88,131	\$215,498
State income tax and change in valuation allowance	(541)	5,776	187	5,867
Non-deductible stock-based compensation	—	(15)	—	(106)
Stock-based compensation tax deficiency	(190)	(381)	(4,012)	(2,838)
Increase in deferred tax valuation allowance	(24,323)	(11)	(84,218)	(16)
Other items	53	(131)	(88)	(202)
Income tax benefit	\$—	\$221,846	\$—	\$218,203

For the three and six months ended June 30, 2016, the effective tax rate was not meaningful due to the valuation allowance recorded. For the three and six months ended June 30, 2015, the effective tax rate was 36% and 35%,

respectively. The Company's effective tax rate is affected by changes in valuation allowances, recurring permanent differences and by discrete items that may occur in any given year, but are not consistent from year to year.

A valuation allowance is established to reduce deferred tax assets if it is determined that it is more likely than not that the related tax benefit will not be realized. On a quarterly basis, management evaluates the need for and adequacy of valuation allowances based on the expected realizability of the deferred tax assets and adjusts the amount of such allowances, if necessary. During the year ended December 31, 2015 and the six months ended June 30, 2016, in evaluating whether it was more likely than not that the Company's net deferred tax assets were realizable through future net income, management considered all available positive and negative evidence, including (i) its earnings history, (ii) its ability to recover net operating loss carry-forwards, (iii) the existence of significant proved oil, NGL and natural gas reserves, (iv) its ability to use tax planning

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strategies, (v) its current price protection utilizing oil and natural gas hedges, (vi) its future revenue and operating cost projections and (vii) the current market prices for oil, NGL and natural gas. Based on all the evidence available, during the year ended December 31, 2015, management determined it was more likely than not that the net deferred tax assets were not realizable, and therefore recorded a valuation allowance of \$676.0 million. During the six months ended June 30, 2016, an additional valuation allowance of \$83.7 million was recorded.

The impact of significant discrete items is separately recognized in the quarter in which the discrete items occur. The vesting of certain restricted stock awards could result in federal and state income tax expense or benefits related to the difference between the market price of the common stock at the date of vesting and the grant date. The exercise of stock option awards could result in federal and state income tax expense or benefits related to the difference between the fair value of the stock option at the grant date and the intrinsic value of the stock option when exercised. The tax impact resulting from vestings of restricted stock awards and exercise of option awards are discrete items. During the three and six months ended June 30, 2016 and 2015, certain shares related to restricted stock awards vested at times when the Company's stock price was lower than the fair value of those shares at the time of the grant. As a result, the income tax deduction related to such shares is less than the expense previously recognized for book purposes. During the three and six months ended June 30, 2016, certain stock options were exercised. No stock options were exercised during the three and six months ended June 30, 2015. The income tax deduction related to the intrinsic value of the options was less than the expense previously recognized for book purposes. In accordance with GAAP, such shortfalls reduce additional paid-in capital to the extent windfall tax benefits have been previously recognized. However, the Company has not previously recognized any windfall tax benefits. Therefore, such shortfalls are included in income tax expense.

The following table presents the tax impact of these shortfalls for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Vesting of restricted stock	\$(182)	\$(388)	\$(4,057)	\$(2,889)
Exercise of restricted stock options	(10)	—	(10)	—
Tax expense due to shortfalls	\$(192)	\$(388)	\$(4,067)	\$(2,889)

Significant components of the Company's net deferred tax asset for the periods presented are as follows:

(in thousands)	June 30, 2016	December 31, 2015
Oil and natural gas properties, midstream service assets and other fixed assets	\$282,612	\$306,997
Net operating loss carry-forward	528,625	479,022
Derivatives	(41,577)	(98,675)
Stock-based compensation	9,340	11,597
Equity method investee	(25,612)	(31,711)
Accrued bonus	2,544	4,763
Capitalized interest	2,173	2,525
Other	2,901	2,820
Net deferred tax asset before valuation allowance	761,006	677,338
Valuation allowance	(761,006)	(677,338)
Net deferred tax asset	\$—	\$—

The Company had federal net operating loss carry-forwards totaling \$1.5 billion and state of Oklahoma net operating loss carry-forwards totaling \$41.0 million as of June 30, 2016. These carry-forwards begin expiring in 2026.

Additionally, these carry-forwards include windfall tax deductions from vestings of certain restricted stock awards and stock option exercises that were not recorded in the Company's income tax provision. The amount of windfall tax benefit recognized in additional paid-in capital is limited to the amount of benefit realized currently in income taxes payable. As of June 30, 2016, the Company had suspended additional paid-in capital credits of \$4.5 million related to

windfall tax deductions. Upon realization of the net operating loss carry-forwards from such windfall tax deductions, the Company would record a benefit of up to \$4.5 million in additional paid-in capital.

The Company's income tax returns for the years 2012 through 2015 remain open and subject to examination by federal tax authorities and/or the tax authorities in Oklahoma and Texas, which are the jurisdictions where the Company has or had operations. Additionally, the statute of limitations for examination of federal net operating loss carry-forwards typically does not begin to run until the year the attribute is utilized in a tax return.

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Note 8—Derivatives

a. Derivatives

The Company engages in derivative transactions such as puts, swaps, collars and, in prior periods, basis swaps to hedge price risks due to unfavorable changes in oil and natural gas prices related to its production. As of June 30, 2016, the Company had 25 open derivative contracts with financial institutions that extend from July 2016 to December 2018. None of these contracts were designated as hedges for accounting purposes. The contracts are recorded at fair value on the unaudited consolidated balance sheets and gains and losses are recognized in current period earnings. Gains and losses on derivatives are reported on the unaudited consolidated statements of operations on the "Gain (loss) on derivatives, net" line item.

Each put transaction has an established floor price. The Company pays its counterparty a premium, which can be deferred until settlement, to enter into the put transaction. When the settlement price is below the floor price, the counterparty pays the Company an amount equal to the difference between the settlement price and the fixed price multiplied by the hedged contract volume. When the settlement price is above the floor price, the put option expires. Each swap transaction has an established fixed price. When the settlement price is below the fixed price, the counterparty pays the Company an amount equal to the difference between the settlement price and the fixed price multiplied by the hedged contract volume. When the settlement price is above the fixed price, the Company pays its counterparty an amount equal to the difference between the settlement price and the fixed price multiplied by the hedged contract volume.

Each collar transaction has an established price floor and ceiling. When the settlement price is below the price floor established by these collars, the Company receives an amount from its counterparty equal to the difference between the settlement price and the price floor multiplied by the hedged contract volume. When the settlement price is above the price ceiling established by these collars, the Company pays its counterparty an amount equal to the difference between the settlement price and the price ceiling multiplied by the hedged contract volume.

In the prior year, the oil basis swap transactions had an established fixed basis differential. The Company's oil basis swaps' differential was between the West Texas Intermediate-Argus Americas Crude (Midland) ("WTI Midland") index crude oil price and the West Texas Intermediate NYMEX ("WTI NYMEX") index crude oil price. When the WTI NYMEX price less the fixed basis differential was greater than the actual WTI Midland price, the difference multiplied by the hedged contract volume was paid to the Company by the counterparty. When the WTI NYMEX price less the fixed basis differential was less than the actual WTI Midland price, the difference multiplied by the hedged contract volume was paid by the Company to the counterparty.

During the six months ended June 30, 2016, the Company successfully completed a hedge restructuring by early terminating the floors of certain derivative contract collars that resulted in a termination amount of \$80 million, which was settled in full by applying the proceeds to prepay the premiums on two new derivatives entered into during the restructuring.

During the six months ended June 30, 2016, the following derivatives were terminated:

	Aggregate Floor volumes	Floor price	Contract period
Oil (volumes in Bbl):			
Put portion of the associated collars	2,263,000	\$80.00	January 2017 - December 2017

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During the six months ended June 30, 2016, the following derivatives were entered into:

	Aggregate volumes	Floor price	Ceiling price	Contract period
Oil (volumes in Bbl):				
Put ⁽¹⁾	2,263,000	\$60.00	\$ —	January 2017 - December 2017
Put ⁽²⁾	2,098,750	\$60.00	\$ —	January 2017 - December 2018
Put ⁽³⁾	600,000	\$40.00	\$ —	May 2016 - December 2016
Swap	1,095,000	\$52.12	\$ —	January 2018 - December 2018
Natural gas (volumes in MMBtu): ⁽⁴⁾				
Put	8,040,000	\$2.50	\$ —	January 2017 - December 2017
Put	8,220,000	\$2.50	\$ —	January 2018 - December 2018
Collar	5,256,000	\$2.50	\$ 3.05	January 2017 - December 2017
Collar	4,635,500	\$2.50	\$ 3.60	January 2018 - December 2018

(1) As part of the Company's hedge restructuring, this put replaced the early terminated put portion of the restructured derivative contract collars. A premium of \$40.0 million was paid at contract inception.

(2) As part of the Company's hedge restructuring, a premium of \$40.0 million was paid at contract inception.

(3) There are \$1.2 million in deferred premiums associated with this contract.

(4) There are \$5.1 million in deferred premiums associated with these contracts.

The following represents cash settlements received for derivatives, net for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Cash settlements received for matured derivatives, net	\$47,382	\$46,596	\$113,319	\$109,737
Cash settlements received for early terminations of derivatives, net ⁽¹⁾	—	—	80,000	—
Cash settlements received for derivatives, net	\$47,382	\$46,596	\$193,319	\$109,737

(1) The settlements amount for the six months ended June 30, 2016 includes \$4.0 million in deferred premiums which were settled net with the early terminated contracts from which they derive.

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The following table summarizes open positions as of June 30, 2016, and represents, as of such date, derivatives in place through December 2018 on annual production volumes:

	Remaining year 2016	Year 2017	Year 2018
Oil positions: ⁽¹⁾			
Puts:			
Hedged volume (Bbl)	1,098,000	1,049,375	1,049,375
Weighted-average price (\$/Bbl)	\$ 42.95	\$ 60.00	\$ 60.00
Swaps:			
Hedged volume (Bbl)	791,200	—	1,095,000
Weighted-average price (\$/Bbl)	\$ 84.82	\$ —	\$ 52.12
Collars:			
Hedged volume (Bbl)	1,833,500	2,628,000	—
Weighted-average floor price (\$/Bbl)	\$ 73.98	\$ 60.00	\$ —
Weighted-average ceiling price (\$/Bbl)	\$ 89.62	\$ 97.22	\$ —
Totals:			
Total volume hedged with floor price (Bbl)	3,722,700	3,677,375	2,144,375
Weighted-average floor price (\$/Bbl)	\$ 67.13	\$ 60.00	\$ 55.98
Total volume hedged with ceiling price (Bbl)	2,624,700	2,628,000	1,095,000
Weighted-average ceiling price (\$/Bbl)	\$ 88.18	\$ 97.22	\$ 52.12
Natural gas positions: ⁽²⁾			
Puts:			
Hedged volume (MMBtu)	—	8,040,000	8,220,000
Weighted-average price (\$/MMBtu)	\$ —	\$ 2.50	\$ 2.50
Collars:			
Hedged volume (MMBtu)	9,384,000	10,731,000	4,635,500
Weighted-average floor price (\$/MMBtu)	\$ 3.00	\$ 2.76	\$ 2.50
Weighted-average ceiling price (\$/MMBtu)	\$ 5.60	\$ 3.53	\$ 3.60
Totals:			
Total volume hedged with floor price (MMBtu)	9,384,000	18,771,000	12,855,500
Weighted-average floor price (\$/MMBtu)	\$ 3.00	\$ 2.65	\$ 2.50
Total volume hedged with ceiling price (MMBtu)	9,384,000	10,731,000	4,635,500
Weighted-average ceiling price (\$/MMBtu)	\$ 5.60	\$ 3.53	\$ 3.60

(1) Oil derivatives are settled based on the average of the daily settlement prices for the First Nearby Month of the WTI NYMEX Light Sweet Crude Oil Futures Contract for each NYMEX Trading Day during each month.

(2) Natural gas derivatives are settled based on the Inside FERC index price for West Texas Waha for the calculation period.

b. Balance sheet presentation

In accordance with the Company's standard practice, its derivatives are subject to counterparty netting under agreements governing such derivatives. The Company's oil and natural gas derivatives are presented on a net basis as "Derivatives" on the unaudited consolidated balance sheets. See Note 9.a for a summary of the fair value of derivatives on a gross basis.

By using derivatives to hedge exposures to changes in commodity prices, the Company exposes itself to credit risk and market risk. For the Company, market risk is the exposure to changes in the market price of oil and natural gas, which are subject to fluctuations from a variety of factors, including changes in supply and demand. Credit risk is the

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counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, thereby creating credit risk. The Company's counterparties are participants in the Senior Secured Credit Facility, which is secured by the Company's oil and natural gas reserves; therefore, the Company is not required to post any collateral. The Company does not require collateral from its derivative counterparties. The Company minimizes the credit risk in derivatives by: (i) limiting its exposure to any single counterparty, (ii) entering into derivatives only with counterparties that meet the Company's minimum credit quality standard or have a guarantee from an affiliate that meets the Company's minimum credit quality standard and (iii) monitoring the creditworthiness of the Company's counterparties on an ongoing basis.

Note 9—Fair value measurements

The Company accounts for its oil and natural gas derivatives at fair value. The fair value of derivatives is determined utilizing pricing models for similar instruments. The models use a variety of techniques to arrive at fair value, including quotes and pricing analysis. Inputs to the pricing models include publicly available prices and forward curves generated from a compilation of data gathered from third parties.

The Company has categorized its assets and liabilities measured at fair value, based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Assets and liabilities recorded at fair value on the unaudited consolidated balance sheets are categorized based on inputs to the valuation techniques as follows:

Level 1 Assets and liabilities recorded at fair value for which values are based on unadjusted quoted prices for identical assets or liabilities in an active market that management has the ability to access. Active markets are considered to be those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Assets and liabilities recorded at fair value for which values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the assets or liabilities. Substantially all of these inputs are observable in the marketplace throughout the full term of the price risk management instrument and can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace.

Level 3 Assets and liabilities recorded at fair value for which values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs are not corroborated by market data. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

When the inputs used to measure fair value fall within different levels of the hierarchy in a liquid environment, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company conducts a review of fair value hierarchy classifications on an annual basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Transfers between fair value hierarchy levels are recognized and reported in the period in which the transfer occurred. No transfers between fair value hierarchy levels occurred during the three or six months ended June 30, 2016 or 2015.

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a. Fair value measurement on a recurring basis

The following tables summarize the Company's fair value hierarchy by commodity on a gross basis and the net presentation on the unaudited consolidated balance sheets for derivative assets and liabilities measured at fair value on a recurring basis as of the periods presented:

(in thousands)	Level 1	Level 2	Level 3	Total gross fair value	Amounts offset	Net fair value presented on the unaudited consolidated balance sheets
As of June 30, 2016:						
Assets						
Current:						
Oil derivatives	\$	—\$93,057	\$—	\$93,057	\$ (515)	\$ 92,542
Natural gas derivatives	—	3,458	—	3,458	(1,165)	2,293
Oil deferred premiums	—	—	—	—	(5,467)	(5,467)
Natural gas deferred premiums	—	—	—	—	(403)	(403)
Noncurrent:						
Oil derivatives	\$	—\$33,181	\$—	\$33,181	\$ —	\$ 33,181
Natural gas derivatives	—	2,724	—	2,724	(2,724)	—
Oil deferred premiums	—	—	—	—	(501)	(501)
Natural gas deferred premiums	—	—	—	—	—	—
Liabilities						
Current:						
Oil derivatives	\$	—\$—	\$—	\$—	\$ 515	\$ 515
Natural gas derivatives	—	(739)	—	(739)	1,165	426
Oil deferred premiums	—	—	(6,784)	(6,784)	5,467	(1,317)
Natural gas deferred premiums	—	—	(1,507)	(1,507)	403	(1,104)
Noncurrent:						
Oil derivatives	\$	—\$(1,820)	\$—	\$(1,820)	\$ —	\$ (1,820)
Natural gas derivatives	—	(774)	—	(774)	2,724	1,950
Oil deferred premiums	—	—	(501)	(501)	501	—
Natural gas deferred premiums	—	—	(3,870)	(3,870)	—	(3,870)
Net derivative position	\$	—\$129,087	\$(12,662)	\$116,425	\$ —	\$ 116,425

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(in thousands)	Level 1	Level 2	Level 3	Total gross fair value	Amounts offset	Net fair value presented on the unaudited consolidated balance sheets
As of December 31, 2015:						
Assets						
Current:						
Oil derivatives	\$	—\$194,940	\$—	\$194,940	\$ —	\$ 194,940
Natural gas derivatives	—	13,166	—	13,166	—	13,166
Oil deferred premiums	—	—	—	—	(9,301)	(9,301)
Natural gas deferred premiums	—	—	—	—	—	—
Noncurrent:						
Oil derivatives	\$	—\$80,302	\$—	\$80,302	\$ —	\$ 80,302
Natural gas derivatives	—	2,459	—	2,459	—	2,459
Oil deferred premiums	—	—	—	—	(4,877)	(4,877)
Natural gas deferred premiums	—	—	—	—	(441)	(441)
Liabilities						
Current:						
Oil derivatives	\$	—\$—	\$—	\$—	\$ —	\$ —
Natural gas derivatives	—	—	—	—	—	—
Oil deferred premiums	—	—	(9,301)	(9,301)	9,301	—
Natural gas deferred premiums	—	—	—	—	—	—
Noncurrent:						
Oil derivatives	\$	—\$—	\$—	\$—	\$ —	\$ —
Natural gas derivatives	—	—	—	—	—	—
Oil deferred premiums	—	—	(4,877)	(4,877)	4,877	—
Natural gas deferred premiums	—	—	(441)	(441)	441	—
Net derivative position	\$	—\$290,867	\$(14,619)	\$276,248	\$ —	\$ 276,248

These items are included as "Derivatives" on the unaudited consolidated balance sheets. Significant Level 2 assumptions associated with the calculation of discounted cash flows used in the mark-to-market analysis of derivatives include each derivative contract's corresponding commodity index price, appropriate risk-adjusted discount rates and other relevant data.

The Company's deferred premiums associated with its derivative contracts are categorized as Level 3, as the Company utilizes a net present value calculation to determine the valuation. They are considered to be measured on a recurring basis as the derivative contracts they derive from are measured on a recurring basis. As derivative contracts containing deferred premiums are entered into, the Company discounts the associated deferred premium to its net present value at the contract trade date, using the Senior Secured Credit Facility rate at the trade date (historical input rates range from 1.69% to 3.56%), and then records the change in net present value to interest expense over the period from trade until the final settlement date at the end of the contract. After this initial valuation, the net present value of each deferred premium is not adjusted; therefore, significant increases (decreases) in the Senior Secured Credit Facility rate would result in a significantly lower (higher) fair value measurement for each new contract entered into that contained a deferred premium; however, the valuation for the deferred premiums already recorded would remain unaffected.

While the Company believes the sources utilized to arrive at the fair value estimates are reliable, different sources or

methods could have yielded different fair value estimates; therefore, on a quarterly basis, the valuation is compared to counterparty valuations and a third-party valuation of the deferred premiums for reasonableness.

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The following table presents actual cash payments required for deferred premiums for the calendar years presented:

(in thousands)	June 30, 2016
Remaining 2016	\$5,407
2017	5,354
2018	2,100
Total	\$12,861

A summary of the changes in assets classified as Level 3 measurements for the periods presented are as follows:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance of Level 3 at beginning of period	\$(13,054)	\$(8,882)	\$(14,619)	\$(9,285)
Change in net present value of deferred premiums for derivatives	(61)	(45)	(133)	(88)
Total purchases and settlements:				
Purchases	(1,960)	(4,409)	(6,072)	(5,384)
Settlements ⁽¹⁾	2,413	1,249	8,162	2,670
Balance of Level 3 at end of period	\$(12,662)	\$(12,087)	\$(12,662)	\$(12,087)

(1) The amount for the six months ended June 30, 2016 includes \$3.9 million which represents the present value of deferred premiums settled in the Company's restructuring upon their early termination.

b. Fair value measurement on a nonrecurring basis

The Company accounts for the impairment of long-lived assets and inventory, if any, at fair value on a nonrecurring basis. For purposes of fair value measurement, it was determined that the impairment of long-lived assets and inventory are classified as Level 3, based on the use of internally developed cash flow models. See Note 2.g for discussion regarding the Company's impairment of (i) materials and supplies for the three months ended June 30, 2016 and the three and six months ended June 30, 2015 and (ii) line-fill for the six months ended June 30, 2015.

The accounting policies for impairment of oil and natural gas properties are discussed in Note 2.f. Significant inputs included in the calculation of discounted cash flows used in the impairment analysis include the Company's estimate of operating and development costs, anticipated production of evaluated reserves and other relevant data. See Note 2.f for discussion regarding the prices used in the calculation of discounted cash flows and the Company's first-quarter 2016 and second-quarter 2015 full cost ceiling impairments.

Note 10—Net loss per share

Basic net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Diluted net loss per share reflects the potential dilution of non-vested restricted stock awards, performance share awards and outstanding restricted stock options. For the three and six months ended June 30, 2016 and 2015, all of these potentially dilutive items were anti-dilutive due to the Company's net loss and, therefore, were excluded from the calculation of diluted net loss per share.

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The following is the calculation of basic and diluted weighted-average common shares outstanding and net loss per share for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except for per share data)	2016	2015	2016	2015
Net loss (numerator):				
Net loss—basic and diluted	\$(71,432)	\$(397,034)	\$(251,803)	\$(397,506)
Weighted-average common shares outstanding (denominator):				
Basic	217,564	211,078	214,562	186,886
Diluted	217,564	211,078	214,562	186,886
Net loss per share:				
Basic	\$(0.33)	\$(1.88)	\$(1.17)	\$(2.13)
Diluted	\$(0.33)	\$(1.88)	\$(1.17)	\$(2.13)

Note 11—Credit risk

The Company's oil, NGL and natural gas sales are made to a variety of purchasers, including intrastate and interstate pipelines or their marketing affiliates and independent marketing companies. The Company's joint operations accounts receivable are from a number of oil and natural gas companies, partnerships, individuals and others who own interests in the oil and natural gas properties operated by the Company. The Company's sales of purchased oil are made to one customer. Management believes that any credit risk imposed by a concentration in the oil and natural gas industry is offset by the creditworthiness of the Company's customer base and industry partners. The Company routinely assesses the recoverability of all material trade and other receivables to determine collectability.

The Company uses derivatives to hedge its exposure to oil and natural gas price volatility. These transactions expose the Company to potential credit risk from its counterparties. In accordance with the Company's standard practice, its derivatives are subject to counterparty netting under agreements governing such derivatives; therefore, the credit risk associated with its derivative counterparties is somewhat mitigated. See Notes 2.e, 8 and 9 for additional information regarding the Company's derivatives.

Note 12—Commitments and contingencies

a. Litigation

From time to time the Company is involved in legal proceedings and/or may be subject to industry rulings that could bring rise to claims in the ordinary course of business. The Company has concluded that the likelihood is remote that the ultimate resolution of any pending litigation or pending claims will be material or have a material adverse effect on the Company's business, financial position, results of operations or liquidity.

b. Drilling contract

The Company has committed to several drilling contracts with a third party to facilitate the Company's drilling plans. One of these contracts is for a term of multiple months and contains an early termination clause that requires the Company to potentially pay penalties to the third party should the Company cease drilling efforts. This penalty would negatively impact the Company's financial statements upon early contract termination. The future commitment of \$3.0 million as of June 30, 2016 is not recorded in the accompanying unaudited consolidated balance sheets. Management does not currently anticipate the early termination of this contract in 2016.

c. Firm sale and transportation commitments

The Company has committed to deliver for sale or transportation fixed volumes of product under certain contractual arrangements that specify the delivery of a fixed and determinable quantity. If not fulfilled, the Company is subject to minimal volume penalties. These commitments are normal and customary for the Company's business. Future

commitments of \$400.2 million as of June 30, 2016 are not recorded in the accompanying unaudited consolidated balance sheets. The Company's production has been equivalent or greater than its delivery commitments during the most recent year, and management expects such production will continue to exceed the Company's future commitments. However, in certain instances, the Company has

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used spot market purchases to meet its commitments in certain locations or due to favorable pricing. Management anticipates continuing this practice in the future. Also, if production is not sufficient to satisfy the Company's delivery commitments, the Company can and may use spot market purchases to fulfill the commitments.

d. Federal and state regulations

Oil and natural gas exploration, production and related operations are subject to extensive federal and state laws, rules and regulations. Failure to comply with these laws, rules and regulations can result in substantial penalties. The regulatory burden on the oil and natural gas industry increases the cost of doing business and affects profitability. The Company believes that it is in compliance with currently applicable federal and state regulations related to oil and natural gas exploration and production, and that compliance with the current regulations will not have a material adverse impact on the financial position or results of operations of the Company. These rules and regulations are frequently amended or reinterpreted; therefore, the Company is unable to predict the future cost or impact of complying with these regulations.

e. Other commitments

See Notes 2.i, 15.a and 19.b for the amount of and discussion regarding the commitments to the Company's non-consolidated variable interest entity ("VIE").

Note 13—2015 Restructuring

Following the fourth-quarter 2014 drop in oil prices, in an effort to reduce costs and to better position the Company for ongoing efficient growth, on January 20, 2015, the Company executed a company-wide restructuring and reduction in force (the "RIF") that included (i) the relocation of certain employees from the Company's Dallas, Texas area office to the Company's other existing offices in Tulsa, Oklahoma and Midland, Texas; (ii) closing the Company's Dallas, Texas area office; (iii) a workforce reduction of approximately 75 employees and (iv) the release of 24 contract personnel. The RIF was communicated to employees on January 20, 2015 and was generally effective immediately. The Company's compensation committee approved the RIF and the related severance package. The Company incurred \$6.0 million in expenses during the six months ended June 30, 2015 related to the RIF. There were no comparative amounts recorded in the six months ended June 30, 2016.

Note 14—Variable interest entity

An entity is referred to as a VIE pursuant to accounting guidance for consolidation if it possesses one of the following criteria: (i) it is thinly capitalized, (ii) the residual equity holders do not control the entity, (iii) the equity holders are shielded from the economic losses, (iv) the equity holders do not participate fully in the entity's residual economics, or (v) the entity was established with non-substantive voting interests. In order to determine if a VIE should be consolidated, an entity must determine if it is the primary beneficiary of the VIE. The primary beneficiary of a VIE is that variable interest-holder possessing a controlling financial interest through: (i) its power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) its obligation to absorb losses or its right to receive benefits from the VIE that could potentially be significant to the VIE. In order to determine whether the Company owns a variable interest in a VIE, a qualitative analysis is performed of the entity's design, organizational structure, primary decision makers and relevant agreements. The Company continually monitors its VIE exposure to determine if any events have occurred that could cause the primary beneficiary to change.

LMS contributed \$16.0 million and \$42.7 million during the three and six months ended June 30, 2016, respectively, and \$14.5 million during the six months ended June 30, 2015, to Medallion Gathering & Processing, LLC, a Texas limited liability company formed on October 12, 2012, and its wholly-owned subsidiaries (together "Medallion"). See Note 19.b for discussion regarding a contribution made to Medallion subsequent to June 30, 2016.

LMS holds 49% of Medallion's ownership units. Medallion was established for the purpose of developing midstream solutions and providing midstream infrastructure to bring oil, NGL and natural gas to market. LMS and the other 51%

interest-holder have agreed that the voting rights of Medallion, the profit and loss sharing, and the additional capital contribution requirements shall be equal to the ownership unit percentage held. Additionally, Medallion requires a super-majority vote of 75% for all key operating and business decisions. The Company has determined that Medallion is a VIE. However, LMS is not considered to be the primary beneficiary of the VIE because LMS does not have the power to direct the activities that most significantly affect Medallion's economic performance. As such, Medallion is accounted for under the equity method of accounting with the Company's proportionate share of Medallion's net income reflected in the unaudited consolidated

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statements of operations as "Income from equity method investee" and the carrying amount reflected in the unaudited consolidated balance sheets as "Investment in equity method investee."

During the six months ended June 30, 2016 and 2015, Medallion continued expansion activities on existing portions of its pipeline infrastructure in order to gather and transport additional third-party oil production. During the three months ended June 30, 2015, Medallion began recognizing revenue due to its main pipeline becoming fully operational. See Note 15.a for discussion of items included in the Company's unaudited consolidated financial statements related to Medallion.

During the three months ended June 30, 2015, the Company negotiated a buyout of a minimum volume commitment to Medallion, which was related to natural gas gathering infrastructure Medallion constructed on acreage that the Company does not plan to develop. The portion of the buyout that was related to the Company's minimum volume commitment for future periods was \$3.0 million and is included in the unaudited consolidated statements of operations in the line item "Minimum volume commitments" for the period in which the buyout was settled.

Note 15—Related Parties

a. Medallion

The following table summarizes items included in the unaudited consolidated statements of operations related to Medallion for the periods presented:

	Three months ended June 30, 2016	Six months ended June 30, 2015
(in thousands)		
Midstream service revenues	\$— \$390	\$— \$487
Minimum volume commitments	—3,579	—5,235
Interest and other income	—	—108

The following table summarizes items included in the unaudited consolidated balance sheets related to Medallion as of the dates presented:

	June 30, 2016	December 31, 2015
(in thousands)		
Accounts receivable, net	\$ —	\$ 1,163
Other assets, net ⁽¹⁾	1,025	1,025
Other current liabilities ⁽²⁾	102	27,583

(1) Amounts included in "Other assets, net" above represent LMS owned line-fill in Medallion's pipeline.

(2) Amounts included in "Other current liabilities" above represent LMS' accrued line-fill purchase in Medallion's pipeline as of June 30, 2016 and capital contribution payable to Medallion as of December 31, 2015.

b. Targa Resources Corp.

The Company has a gathering and processing arrangement with affiliates of Targa Resources Corp. ("Targa"). One of Laredo's directors was on the board of directors of Targa until May 18, 2015.

The following table summarizes the oil, NGL and natural gas sales and midstream service revenues received from Targa included in the unaudited consolidated statements of operations for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Oil, NGL and natural gas sales	\$18,112	\$34,012	\$35,917	\$53,643
Midstream service revenues	102	—	237	—

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The following table summarizes the amounts included in accounts receivable, net from Targa in the unaudited consolidated balance sheets as of the dates presented:

	June	December
(in thousands)	30,	31, 2015
	2016	
Accounts receivable, net	\$9,337	\$ 6,097

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c. Archrock Partners, L.P.

The Company has a compression arrangement with affiliates of Archrock Partners, L.P., formerly Exterran Partners L.P. ("Archrock"). One of Laredo's directors is on the board of directors of Archrock GP LLC, an affiliate of Archrock.

The following table summarizes the lease operating expenses related to Archrock included in the unaudited consolidated statements of operations for the periods presented:

	Three months ended June 30,	Six months ended June 30,		
(in thousands)	2016	2015	2016	2015
Lease operating expenses	\$526	\$391	\$1,001	\$776

The following table summarizes the capital expenditures related to Archrock included in the unaudited consolidated statements of cash flows for the periods presented:

	Three months ended June 30,	Six months ended June 30,		
(in thousands)	2016	2015	2016	2015
Capital expenditures:				
Midstream service assets	\$—	\$18	\$20	\$64

Capital expenditures:

Midstream service assets \$—\$18 \$20 \$64

The following table summarizes the amounts included in accounts payable from Archrock in the unaudited consolidated balance sheets as of the dates presented:

	June 30, 2016	December 31, 2015
(in thousands)		
Accounts payable	\$—	\$13

Accounts payable \$—\$13

d. Helmerich & Payne, Inc.

The Company has had drilling contracts with Helmerich & Payne, Inc. ("H&P"). Laredo's Chairman and Chief Executive Officer is on the board of directors of H&P.

The following table summarizes the capitalized oil and natural gas properties related to H&P included in the unaudited consolidated statements of cash flows for the periods presented:

	Three months ended June 30,	Six months ended June 30,		
(in thousands)	2016	2015	2016	2015
Capital expenditures:				
Oil and natural gas properties	\$—	\$177	\$—	\$2,434

Capital expenditures:

Oil and natural gas properties \$—\$177 \$—\$2,434

Note 16—Segments

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 primarily in the Permian Basin in West Texas. 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 natural gas gathering services as well as rig fuel, natural gas lift and water delivery and takeaway in and around Laredo's primary production corridors.

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The following table presents selected financial information, for the periods presented, regarding the Company's operating segments on a stand-alone basis and the consolidation and elimination entries necessary to arrive at the information for the Company on a consolidated basis:

(in thousands)	Exploration and production	Midstream and marketing	Eliminations	Consolidated company
Three months ended June 30, 2016:				
Oil, NGL and natural gas sales	\$102,526	\$—	\$ —	\$102,526
Midstream service revenues	—	11,138	(9,506)	1,632
Sales of purchased oil	—	42,615	—	42,615
Total revenues	102,526	53,753	(9,506)	146,773
Lease operating expenses, including production tax	29,793	—	(2,586)	27,207
Midstream service expenses	—	6,572	(5,394)	1,178
Costs of purchased oil	—	44,012	—	44,012
General and administrative ⁽¹⁾	18,818	1,684	—	20,502
Depletion, depreciation and amortization ⁽²⁾	31,969	2,208	—	34,177
Impairment expense	963	—	—	963
Other operating costs and expenses ⁽³⁾	806	54	—	860
Operating income (loss)	\$20,177	\$ (777)	\$ (1,526)	\$17,874
Other financial information:				
Income from equity method investee	\$—	\$3,696	\$ —	\$3,696
Interest expense ⁽⁴⁾	\$ (22,050)	\$ (1,462)	\$ —	\$ (23,512)
Capital expenditures	\$ (92,089)	\$ (1,488)	\$ —	\$ (93,577)
Gross property and equipment ⁽⁶⁾	\$5,484,416	\$366,858	\$ (4,604)	\$5,846,670
Three months ended June 30, 2015:				
Oil, NGL and natural gas sales	\$125,679	\$221	\$ (346)	\$125,554
Midstream service revenues	—	4,362	(2,636)	1,726
Sales of purchased oil	—	55,051	—	55,051
Total revenues	125,679	59,634	(2,982)	182,331
Lease operating expenses, including production tax	41,423	—	(2,717)	38,706
Midstream service expenses, including minimum volume commitments	4,399	998	(221)	5,176
Costs of purchased oil	—	54,417	—	54,417
General and administrative ⁽¹⁾	21,347	1,861	—	23,208
Depletion, depreciation and amortization ⁽²⁾	69,987	2,125	—	72,112
Impairment expense	489,599	—	—	489,599
Other operating costs and expenses ⁽³⁾	548	45	—	593
Operating income (loss)	\$ (501,624)	\$188	\$ (44)	\$ (501,480)
Other financial information:				
Income from equity method investee	\$—	\$2,914	\$ —	\$2,914
Interest expense ⁽⁴⁾	\$ (22,845)	\$ (1,125)	\$ —	\$ (23,970)
Loss on early redemption of debt ⁽⁵⁾	\$ (30,056)	\$ (1,481)	\$ —	\$ (31,537)
Capital expenditures	\$ (133,259)	\$ (13,841)	\$ —	\$ (147,100)
Gross property and equipment ⁽⁶⁾	\$5,170,912	\$257,073	\$ (365)	\$5,427,620

(1) General and administrative expense was allocated based on the number of employees in the respective segment as of June 30, 2016 and 2015. Certain components of general and administrative expense, primarily payroll, deferred

compensation and vehicle expenses, were not allocated but were actual expenses for each segment. Land and geology expenses were not allocated to the midstream and marketing segment.

Depletion, depreciation and amortization were actual expenses for each segment with the exception of the

(2) allocation of depreciation of other fixed assets, which is based on the number of employees in the respective segment as of June 30, 2016 and 2015.

(3) Other operating costs and expenses consist of accretion of asset retirement obligations. These are actual costs and expenses and were not allocated.

Interest expense was allocated to the exploration and production segment based on gross property and equipment

(4) as of June 30, 2016 and 2015 and allocated to the midstream and marketing segment based on gross property and equipment and life-to-date contributions to the Company's equity method investee as of June 30, 2016 and 2015.

Loss on early redemption of debt was allocated to the exploration and production segment based on gross property

(5) and equipment as of June 30, 2015 and allocated to the midstream and marketing segment based on gross property and equipment and life-to-date contributions to the Company's equity method investee as of June 30, 2015.

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Gross property and equipment for the midstream and marketing segment includes investment in equity method (6) investee totaling \$213.6 million and \$103.2 million as of June 30, 2016 and 2015, respectively. Other fixed assets were allocated based on the number of employees in the respective segment as of June 30, 2016 and 2015.

(in thousands)	Exploration and production	Midstream and marketing	Eliminations	Consolidated company
Six months ended June 30, 2016:				
Oil, NGL and natural gas sales	\$175,668	\$—	\$ —	\$175,668
Midstream service revenues	—	22,405	(18,972)	3,433
Sales of purchased oil	—	74,229	—	74,229
Total revenues	175,668	96,634	(18,972)	253,330
Lease operating expenses, including production tax	59,157	—	(4,997)	54,160
Midstream service expenses	—	13,081	(11,294)	1,787
Costs of purchased oil	—	76,958	—	76,958
General and administrative ⁽¹⁾	36,497	3,456	—	39,953
Depletion, depreciation and amortization ⁽²⁾	71,261	4,394	—	75,655
Impairment expense	162,027	—	—	162,027
Other operating costs and expenses ⁽³⁾	1,598	106	—	1,704
Operating loss	\$(154,872)	\$(1,361)	\$ (2,681)	\$(158,914)
Other financial information:				
Income from equity method investee	\$—	\$5,994	\$ —	\$5,994
Interest expense ⁽⁴⁾	\$(44,353)	\$(2,864)	\$ —	\$(47,217)
Capital expenditures	\$(197,874)	\$(3,425)	\$ —	\$(201,299)
Gross property and equipment ⁽⁶⁾	\$5,484,416	\$366,858	\$ (4,604)	\$5,846,670
Six months ended June 30, 2015:				
Oil, NGL and natural gas sales	\$243,890	\$333	\$ (551)	\$243,672
Midstream service revenues	—	8,045	(5,010)	3,035
Sales of purchased oil	—	86,318	—	86,318
Total revenues	243,890	94,696	(5,561)	333,025
Lease operating expenses, including production tax	85,268	—	(5,096)	80,172
Midstream service expenses, including minimum volume commitments	4,399	4,340	(333)	8,406
Costs of purchased oil	—	85,617	—	85,617
General and administrative ⁽¹⁾	41,125	3,938	—	45,063
Depletion, depreciation and amortization ⁽²⁾	140,244	3,810	—	144,054
Impairment expense	490,366	111	—	490,477
Other operating costs and expenses ⁽³⁾	6,972	242	—	7,214
Operating loss	\$(524,484)	\$(3,362)	\$ (132)	\$(527,978)
Other financial information:				
Income from equity method investee	\$—	\$2,481	\$ —	\$2,481
Interest expense ⁽⁴⁾	\$(53,932)	\$(2,452)	\$ —	\$(56,384)
Loss on early redemption of debt ⁽⁵⁾	\$(30,056)	\$(1,481)	\$ —	\$(31,537)
Capital expenditures	\$(380,872)	\$(34,314)	\$ —	\$(415,186)
Gross property and equipment ⁽⁶⁾	\$5,170,912	\$257,073	\$ (365)	\$5,427,620

(1) General and administrative expense was allocated based on the number of employees in the respective segment as of June 30, 2016 and 2015. Certain components of general and administrative expense, primarily payroll, deferred

compensation and vehicle expenses, were not allocated but were actual expenses for each segment. Land and geology expenses were not allocated to the midstream and marketing segment.

Depletion, depreciation and amortization were actual expenses for each segment with the exception of the (2) allocation of depreciation of other fixed assets, which is based on the number of employees in the respective segment as of June 30, 2016 and 2015.

Other operating costs and expenses consist of accretion of asset retirement obligations for the six months ended (3) June 30, 2016 and 2015 and restructuring expense for the six months ended June 30, 2015. These are actual costs and expenses and were not allocated.

Interest expense was allocated to the exploration and production segment based on gross property and equipment (4) as of June 30, 2016 and 2015 and allocated to the midstream and marketing segment based on gross property and equipment and life-to-date contributions to the Company's equity method investee as of June 30, 2016 and 2015.

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Loss on early redemption of debt was allocated to the exploration and production segment based on gross property (5) and equipment as of June 30, 2015 and allocated to the midstream and marketing segment based on gross property and equipment and life-to-date contributions to the Company's equity method investee as of June 30, 2015.

Gross property and equipment for the midstream and marketing segment includes investment in equity method (6) investee totaling \$213.6 million and \$103.2 million as of June 30, 2016 and 2015, respectively. Other fixed assets were allocated based on the number of employees in the respective segment as of June 30, 2016 and 2015.

Note 17—Subsidiary guarantors

The Guarantors have fully and unconditionally guaranteed the January 2022 Notes, the May 2022 Notes, the March 2023 Notes and the Senior Secured Credit Facility (and had guaranteed the January 2019 Notes until the Redemption Date), subject to the Releases. In accordance with practices accepted by the SEC, Laredo has prepared condensed consolidating financial statements to quantify the assets, results of operations and cash flows of such subsidiaries as subsidiary guarantors. The following unaudited condensed consolidating balance sheets as of June 30, 2016 and December 31, 2015, unaudited condensed consolidating statements of operations for the three and six months ended June 30, 2016 and 2015 and unaudited condensed consolidating statements of cash flows for the six months ended June 30, 2016 and 2015 present financial information for Laredo on a stand-alone basis (carrying any investment in subsidiaries under the equity method), financial information for the subsidiary guarantors on a stand-alone basis (carrying any investment in subsidiaries under the equity method), and the consolidation and elimination entries necessary to arrive at the information for the Company on a condensed consolidated basis. Deferred income taxes for LMS and for GCM are recorded on Laredo's statements of financial position, statements of operations and statements of cash flows as they are disregarded entities for income tax purposes. Laredo and the Guarantors are not restricted from making intercompany distributions to each other. During the six months ended June 30, 2016, certain assets were transferred from LMS to Laredo at historical cost. See Note 5.d for a discussion of the early redemption of the January 2019 Notes.

Condensed consolidating balance sheet

June 30, 2016

(Unaudited)

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Accounts receivable, net	\$73,429	\$15,114	\$—	\$88,543
Other current assets	120,982	1,737	—	122,719
Total oil and natural gas properties, net	970,445	9,335	(4,604)	975,176
Total midstream service assets, net	—	128,052	—	128,052
Total other fixed assets, net	40,701	250	—	40,951
Investment in subsidiaries and equity method investee	348,623	213,616	(348,623)	213,616
Total other long-term assets	37,526	3,568	—	41,094
Total assets	\$1,591,706	\$371,672	\$ (353,227)	\$1,610,151
Accounts payable	\$12,934	\$1,566	\$—	\$14,500
Other current liabilities	120,756	18,556	—	139,312
Long-term debt, net	1,392,877	—	—	1,392,877
Other long-term liabilities	51,373	2,927	—	54,300
Stockholders' equity	13,766	348,623	(353,227)	9,162
Total liabilities and stockholders' equity	\$1,591,706	\$371,672	\$ (353,227)	\$1,610,151

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Condensed notes to the consolidated financial statements

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Condensed consolidating balance sheet

December 31, 2015

(Unaudited)

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Accounts receivable, net	\$ 74,613	\$ 13,086	\$ —	\$ 87,699
Other current assets	244,477	56	—	244,533
Total oil and natural gas properties, net	1,017,565	9,350	(1,923)	1,024,992
Total midstream service assets, net	—	131,725	—	131,725
Total other fixed assets, net	43,210	328	—	43,538
Investment in subsidiaries and equity method investee	301,891	192,524	(301,891)	192,524
Total other long-term assets	84,360	3,916	—	88,276
Total assets	\$ 1,766,116	\$ 350,985	\$ (303,814)	\$ 1,813,287
Accounts payable	\$ 12,203	\$ 1,978	\$ —	\$ 14,181
Other current liabilities	158,283	44,351	—	202,634
Long-term debt, net	1,416,226	—	—	1,416,226
Other long-term liabilities	46,034	2,765	—	48,799
Stockholders' equity	133,370	301,891	(303,814)	131,447
Total liabilities and stockholders' equity	\$ 1,766,116	\$ 350,985	\$ (303,814)	\$ 1,813,287

Condensed consolidating statement of operations

For the three months ended June 30, 2016

(Unaudited)

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	\$ 102,511	\$ 53,768	\$ (9,506)	\$ 146,773
Total costs and expenses	84,137	52,742	(7,980)	128,899
Operating income	18,374	1,026	(1,526)	17,874
Interest expense and other, net	(23,501)	—	—	(23,501)
Other non-operating income (expense)	(64,779)	3,692	(4,718)	(65,805)
Income (loss) before income tax	(69,906)	4,718	(6,244)	(71,432)
Income tax	—	—	—	—
Net income (loss)	\$ (69,906)	\$ 4,718	\$ (6,244)	\$ (71,432)

Condensed consolidating statement of operations

For the six months ended June 30, 2016

(Unaudited)

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	\$ 175,633	\$ 96,669	\$ (18,972)	\$ 253,330
Total costs and expenses	334,201	94,334	(16,291)	412,244
Operating income (loss)	(158,568)	2,335	(2,681)	(158,914)
Interest expense and other, net	(47,107)	—	—	(47,107)
Other non-operating income (expense)	(43,447)	5,983	(8,318)	(45,782)
Income (loss) before income tax	(249,122)	8,318	(10,999)	(251,803)
Income tax	—	—	—	—

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Net income (loss)	\$(249,122)	\$ 8,318	\$ (10,999)	\$ (251,803)
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Condensed notes to the consolidated financial statements

(Unaudited)

Condensed consolidating statement of operations

For the three months ended June 30, 2015

(Unaudited)

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	\$ 125,687	\$ 59,626	\$ (2,982)	\$ 182,331
Total costs and expenses	629,359	57,390	(2,938)	683,811
Operating income (loss)	(503,672)	2,236	(44)	(501,480)
Interest expense and other, net	(23,797)	—	—	(23,797)
Other non-operating income (expense)	(91,367)	2,914	(5,150)	(93,603)
Income (loss) before income tax	(618,836)	5,150	(5,194)	(618,880)
Deferred income tax benefit	221,846	—	—	221,846
Net income (loss)	\$(396,990)	\$ 5,150	\$ (5,194)	\$ (397,034)

Condensed consolidating statement of operations

For the six months ended June 30, 2015

(Unaudited)

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	\$ 243,833	\$ 94,753	\$ (5,561)	\$ 333,025
Total costs and expenses	772,667	93,765	(5,429)	861,003
Operating income (loss)	(528,834)	988	(132)	(527,978)
Interest expense and other, net	(56,088)	—	—	(56,088)
Other non-operating income (expense)	(30,655)	2,481	(3,469)	(31,643)
Income (loss) before income tax	(615,577)	3,469	(3,601)	(615,709)
Deferred income tax benefit	218,203	—	—	218,203
Net income (loss)	\$(397,374)	\$ 3,469	\$ (3,601)	\$ (397,506)

Condensed consolidating statement of cash flows

For the six months ended June 30, 2016

(Unaudited)

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Net cash flows provided by operating activities	\$ 139,610	\$ 7,339	\$ (8,318)	\$ 138,631
Change in investment between affiliates	(47,069)	38,751	8,318	—
Capital expenditures and other	(197,540)	(46,090)	—	(243,630)
Net cash flows provided by financing activities	93,154	—	—	93,154
Net decrease in cash and cash equivalents	(11,845)	—	—	(11,845)
Cash and cash equivalents at beginning of period	31,153	1	—	31,154
Cash and cash equivalents at end of period	\$ 19,308	\$ 1	\$ —	\$ 19,309

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Laredo Petroleum, Inc.

Condensed notes to the consolidated financial statements

(Unaudited)

Condensed consolidating statement of cash flows

For the six months ended June 30, 2015

(Unaudited)

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Net cash flows provided by (used in) operating activities	\$ 136,092	\$ (18,318)	\$ (3,469)	\$ 114,305
Change in investment between affiliates	(70,472)	67,003	3,469	—
Capital expenditures and other	(380,961)	(48,685)	—	(429,646)
Net cash flows provided by financing activities	343,613	—	—	343,613
Net increase in cash and cash equivalents	28,272	—	—	28,272
Cash and cash equivalents at beginning of period	29,320	1	—	29,321
Cash and cash equivalents at end of period	\$ 57,592	\$ 1	\$ —	\$ 57,593

Note 18—Recent accounting pronouncements

In March, April and May 2016, the Financial Accounting Standards Board ("FASB"), issued new guidance in Topic 606, Revenue from Contracts with Customers, to address the following potential implementation issues of the new revenue standard: (a) to clarify the implementation guidance on principal versus agent considerations, (b) to clarify the identification of performance obligations and the licensing implementation guidance and (c) to address certain issues in the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements for the amendments in these updates are the same as the effective date and transition requirements for the guidance issued in May 2014 and August 2015 to Topic 606. These updates are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements upon adoption of this standard.

In March 2016, the FASB issued new guidance in Topic 323, Investments—Equity Method and Joint Ventures, to eliminate the requirement to retroactively adopt the equity method of accounting when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. The amendments in this update are effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The amendments in this update should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early application of the amendments in this update is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements upon adoption of this standard.

In March 2016, the FASB issued new guidance in Topic 718, Compensation—Stock Compensation, which seeks to simplify the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the applicable amendments in the same period. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements upon adoption of this standard.

In February 2016, the FASB issued new guidance in Topic 842, Leases. The core principle of the new guidance is that a lessee should recognize the assets and liabilities that arise from leases in the statement of financial position. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. Reasonably certain

is a high threshold that is consistent with and intended to be applied in the same way as the reasonably assured threshold in the previous leases guidance. In addition, also consistent with the previous leases guidance, a lessee (and a lessor) should exclude most variable lease payments in measuring lease assets and lease liabilities, other than those that depend on an index or a rate or are in substance fixed payments. For leases with a term of

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12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. There continues to be a differentiation between finance leases and operating leases. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in this update is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements upon adoption of this standard.

In July 2015, the FASB issued new guidance in Topic 330, Inventory, which seeks to simplify the measurement of inventory. The amendments in this update apply to inventory that is measured using all methods excluding last-in, first-out and the retail inventory method. The main substantive provision of this guidance is for an entity to change the subsequent measurement of inventory, within the scope of this guidance, from LCM to the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments in this update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within those fiscal years and should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements upon adoption of this standard.

In April 2015, the FASB issued new guidance in Subtopic 350-40, Intangibles—Goodwill and Other—Internal-Use Software. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. In addition, the guidance in this update supersedes paragraph 350-40-25-16. The amendments in this update are effective for annual periods beginning after December 15, 2015, including interim periods within those annual periods and should be applied prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. The Company elected to adopt this guidance in the first quarter of 2016 on a prospective basis, and the adoption did not have an effect on its unaudited consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard that supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and industry-specific guidance in Subtopic 932-605, Extractive Activities—Oil and Gas—Revenue Recognition. The core principle of the new guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring those goods or services. The new standard also requires significantly expanded disclosure regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard creates a five-step model that requires companies to exercise judgment when

considering the terms of a contract and all relevant facts and circumstances. The standard allows for several transition methods: (a) a full retrospective adoption in which the standard is applied to all of the periods presented, or (b) a modified retrospective adoption in which the standard is applied only to the most current period presented in the financial statements, including additional disclosures of the standard's application impact to individual financial statement line items. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements upon adoption of this standard.

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Note 19—Subsequent events

a. Senior Secured Credit Facility

On July 12, 2016, the Company borrowed \$94.7 million on the Senior Secured Credit Facility, after which the outstanding balance under the Senior Secured Credit Facility was \$205.0 million. On July 19, 2016, the Company completed the July 2016 Equity Offering (as defined below) and applied the net proceeds to the outstanding balance under the Senior Secured Credit Facility, reducing the balance to \$70.0 million.

b. Medallion contribution

Subsequent to June 30, 2016, the Company approved, and on July 29, 2016 contributed, \$16.0 million to fund continued expansion activities on existing portions of Medallion's pipeline infrastructure in order to gather additional third-party production. See Note 14 for additional discussion regarding Medallion and see Note 15.a for discussion of items included in the Company's unaudited consolidated financial statements related to Medallion.

c. New derivative contracts

Subsequent to June 30, 2016, the Company entered into the following new derivative contracts:

	Aggregate volumes	Price	Contract period
Oil (volumes in Bbl): ⁽¹⁾			
Swap	1,003,750	\$51.90	January 2017 - December 2017
Swap	1,003,750	\$51.17	January 2017 - December 2017
NGL (volumes in Bbl):			
Swap ⁽²⁾	444,000	\$11.24	January 2017 - December 2017
Swap ⁽³⁾	375,000	\$22.26	January 2017 - December 2017

(1)The associated derivatives will be settled based on the WTI NYMEX index oil price.

(2)The associated derivative will be settled based on the Mont Belvieu Purity Ethane-OPIS price.

(3)The associated derivative will be settled based on the Mont Belvieu Propane (TET)-OPIS price.

d. Acquisition of proved and unproved oil and natural gas properties

Subsequent to June 30, 2016, the Company entered into an agreement to acquire approximately 9,200 net acres of additional leasehold interests in western Glasscock and Reagan counties within the Company's core development area (which includes production of approximately 300 net BOE/D from existing vertical wells) for an aggregate purchase price of \$125.0 million. On July 13 and July 18, 2016, the Company closed portions of this acquisition for approximately \$92.7 million and \$1.65 million, respectively. The closings on the remaining interests, which are subject to certain preferential purchase rights and consents, are expected to occur as such rights and consents are satisfied or obtained during the third and fourth quarters of 2016.

e. July equity offering

On July 19, 2016, the Company completed the sale of 13,000,000 shares of Laredo's common stock (the "July 2016 Equity Offering") for net proceeds of approximately \$136.3 million, after underwriting discounts, commissions and offering expenses. The Company used the net proceeds from the July 2016 Equity Offering to repay borrowings under its Senior Secured Credit Facility as discussed above in Note 19.a. The Company granted the underwriters a 30-day option to purchase up to an additional 1,950,000 shares of Laredo's common stock on the same terms. On August 4, 2016, the underwriters provided notice of the full exercise of the option. The sale of the additional 1,950,000 shares of Laredo's common stock pursuant to the option is expected to close on August 9, 2016 and will result in net proceeds to the Company of approximately \$20.5 million, after underwriting discounts, commissions and offering expenses.

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Note 20—Supplementary information

Costs incurred in oil, NGL and natural gas property acquisition, exploration and development activities

Costs incurred in the acquisition, exploration and development of oil, NGL and natural gas assets are presented below:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Property acquisition costs:				
Evaluated	\$—	\$—	\$—	\$—
Unevaluated	—	—	—	—
Exploration	19,769	3,841	27,032	8,354
Development costs ⁽¹⁾	70,806	110,518	152,692	317,190
Total costs incurred	\$90,575	\$114,359	\$179,724	\$325,544

The costs incurred for oil, NGL and natural gas development activities include \$0.1 million and \$0.5 million in (1) asset retirement obligations for the three months ended June 30, 2016 and 2015, respectively, and \$0.2 million and \$1.0 million for the six months ended June 30, 2016 and 2015, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements and condensed notes thereto included elsewhere in this Quarterly Report as well as our audited consolidated financial statements and notes thereto included in our 2015 Annual Report. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. Please see "Cautionary Statement Regarding Forward-Looking Statements." Except for purposes of the unaudited consolidated financial statements and condensed notes thereto included elsewhere in this Quarterly Report, references in this Quarterly Report to "Laredo," "we," "us," "our" or similar terms refer to Laredo, LMS and GCM collectively unless the context otherwise indicates or requires. All amounts, dollars and percentages presented in this Quarterly Report are rounded and therefore approximate.

Executive overview

We are an independent energy company focused on the acquisition, exploration and development of oil and natural gas properties, and the transportation of oil and natural gas from such properties, primarily in the Permian Basin in West Texas. Since our inception, we have grown primarily through our drilling program coupled with select strategic acquisitions and joint ventures.

Our financial and operating performance for the three months ended June 30, 2016 included the following:

- Oil, NGL and natural gas sales of \$102.5 million, compared to \$125.6 million for the three months ended June 30, 2015;

- Average daily sales volumes of 47,667 BOE/D, compared to 46,532 BOE/D for the three months ended June 30, 2015;

- Net loss of \$71.4 million, compared to net loss of \$397.0 million, including a non-cash full cost ceiling impairment of \$488.0 million, for the three months ended June 30, 2015; and

- Adjusted EBITDA (a non-GAAP financial measure) of \$107.8 million, compared to \$117.9 million for the three months ended June 30, 2015. See page 55 for a reconciliation of adjusted EBITDA.

Our financial and operating performance for the six months ended June 30, 2016 included the following:

- Oil, NGL and natural gas sales of \$175.7 million, compared to \$243.7 million for the six months ended June 30, 2015;

- Average daily sales volumes of 46,935 BOE/D, compared to 47,007 BOE/D for the six months ended June 30, 2015;

- Net loss of \$251.8 million, including a non-cash full cost ceiling impairment of \$161.1 million, compared to net loss of \$397.5 million, including a non-cash full cost ceiling impairment of \$488.0 million, for the six months ended June 30, 2015; and

- Adjusted EBITDA (a non-GAAP financial measure) of \$203.8 million, compared to \$236.5 million for the six months ended June 30, 2015. See page 55 for a reconciliation of adjusted EBITDA.

Reserves, pricing and non-cash full cost ceiling impairment

Our results of operations are heavily influenced by oil, NGL and natural gas prices, which have significantly declined and remain at low levels. Oil, NGL and natural gas price fluctuations are caused by changes in global and regional supply and demand, market uncertainty, economic conditions and a variety of additional factors. Since the inception of our oil and natural gas activities, commodity prices have experienced significant fluctuations, and additional changes in commodity prices may affect the economic viability of, and our ability to fund, our drilling projects, as well as the economic valuation and economic recovery of oil, NGL and natural gas reserves.

Our reserves as of June 30, 2016 and December 31, 2015 are reported in three streams: oil, NGL and natural gas. Net book value of evaluated oil and natural gas properties did not exceed the full cost ceiling amount as of June 30, 2016. As such, we did not record a second-quarter non-cash full cost ceiling impairment. See Note 2.f to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for prices used to value our reserves and additional discussion of our full cost impairments in prior periods.

We have entered into a number of derivatives, which have enabled us to offset a portion of the changes in our cash flow caused by price fluctuations on our sales of oil, NGL and natural gas as discussed in "Item 3. Quantitative and Qualitative Disclosures About Market Risk."

Potential future low commodity price impact on our full cost impairment

Oil, NGL and natural gas prices have remained low in the third quarter of 2016. If prices remain at or below the current low levels, subject to numerous factors and inherent limitations, and if all other factors remain constant, we will incur an additional non-cash full cost impairment in the third quarter of 2016, which will have an adverse effect on our results of operations.

There are numerous uncertainties inherent in the estimation of proved reserves and accounting for oil and natural gas properties in future periods. In addition to unknown future commodity prices, other uncertainties include (i) changes in drilling and completion costs, (ii) changes in oilfield service costs, (iii) production results, (iv) our ability, in a low price environment, to strategically drill the most economic locations in our multi-stack horizontal targets, (v) income tax impacts, (vi) potential recognition of additional proved undeveloped reserves, (vii) any potential value added to our proved reserves when testing recoverability from drilling unbooked locations and (viii) the inherent significant volatility in the commodity prices for oil and natural gas exemplified by the large swings in recent months.

Each of the above factors is evaluated on a quarterly basis and if there is a material change in any factor it is incorporated into our internal reserve estimation utilized in our quarterly accounting estimates. We use our internal reserve estimates to evaluate, also on a quarterly basis, the reasonableness of our reserve development plans for our reported reserves. Changes in circumstance, including commodity pricing, economic factors and the other uncertainties described above may lead to changes in our reserve development plans.

We have set forth below a calculation of a potential future full cost impairment. Such implied impairment should not be interpreted to be indicative of our development plan or of our actual future results. Each of the uncertainties noted above has been evaluated for material known trends to be potentially included in the estimation of possible third-quarter effects. Based on such review, we determined that the impact of decreased commodity prices is the only significant known variable necessary in the following scenario.

Our hypothetical third-quarter 2016 full cost ceiling calculation has been prepared by substituting (a) \$36.24 per barrel for oil, (b) \$10.97 per barrel for NGL and (c) \$1.64 per MMBtu for natural gas (the "Pro Forma Prices") for the respective Realized Prices as of June 30, 2016. All other inputs and assumptions have been held constant. The Pro Forma Prices use a slightly modified Realized Price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for oil, NGL and natural gas on the first day of the month for the 11 months ended August 1, 2016, with the price for August 1, 2016 held constant for the remaining twelfth month of the calculation. Based on these inputs, the implied third-quarter impairment would be \$38 million. We believe that substituting the Pro Forma Prices in our June 30, 2016 internal reserve estimates may help provide users with an understanding of the impact of known trends on our September 30, 2016 full cost ceiling test and in preparing our year-end reserve estimates.

Recent developments

Acquisition of proved and unproved oil and natural gas properties

Subsequent to June 30, 2016, we entered into an agreement to acquire approximately 9,200 net acres of additional leasehold interests in western Glasscock and Reagan counties within our core development area (which includes production of approximately 300 net barrels of oil equivalent per day from existing vertical wells) for an aggregate purchase price of \$125.0 million. As of July 13 and July 18, 2016, we have closed portions of this acquisition for \$92.7 million and \$1.65 million, respectively. The closings on the remaining interests, which are subject to certain preferential purchase rights and consents, are expected to occur as such rights and consents are satisfied or obtained during the third and fourth quarter of 2016.

July 2016 equity offering

On July 19, 2016, we completed the sale of 13,000,000 shares of Laredo's common stock for net proceeds of \$136.3 million, after underwriting discounts, commissions and offering expenses, which were used to repay borrowings under our Senior Secured Credit Facility. We granted the underwriters a 30-day option to purchase up to an additional 1,950,000 shares of Laredo's common stock on the same terms. On August 4, 2016, the underwriters provided notice of the full exercise of the option. The sale of the additional 1,950,000 shares of Laredo's common stock pursuant to the

option is expected to close on August 9, 2016 and will result in net proceeds of \$20.5 million, after underwriting discounts, commissions and offering expenses.

Core areas of operations

The oil and liquids-rich Permian Basin is characterized by multiple target horizons, extensive production histories, long-lived reserves, high drilling success rates and high initial production rates. As of June 30, 2016, we had assembled 128,504 net acres in the Permian Basin.

Sources of our revenue

Our revenues are primarily derived from the sale of produced oil, NGL and natural gas within the continental United States and the sale of purchased oil, and our revenues do not include the effects of derivatives. For the three months ended June 30, 2016, our revenues were comprised of sales of 54% produced oil, 10% produced NGL, 6% produced natural gas, 29% purchased oil and 1% midstream services. For the six months ended June 30, 2016, our revenues were comprised of sales of 53% produced oil, 9% produced NGL, 7% produced natural gas, 29% purchased oil and 2% midstream services. Our oil, NGL and natural gas revenues may vary significantly from period to period as a result of changes in volumes of production and/or changes in commodity prices. Our sales of purchased oil revenue may vary due to changes in oil prices and market differentials. Our midstream service revenues may vary due to oil throughput fees and the level of services provided to third parties for (i) gathered natural gas, (ii) gas lift fees and (iii) water services.

Results of operations consolidated

Three and six months ended June 30, 2016 as compared to the three and six months ended June 30, 2015

Oil, NGL and natural gas sales volumes, revenues and pricing

The following table sets forth information regarding oil, NGL and natural gas sales volumes, revenues and average sales prices per BOE sold, for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Sales volumes:				
Oil (MBbl)	2,012	1,938	4,018	4,110
NGL (MBbl)	1,153	1,095	2,219	2,084
Natural gas (MMcf)	7,038	7,205	13,834	13,885
Oil equivalents (MBOE) ⁽¹⁾⁽²⁾	4,338	4,234	8,542	8,508
Average daily sales volumes (BOE/D) ⁽²⁾	47,667	46,532	46,935	47,007
% Oil	46	% 46	% 47	% 48
Oil, NGL and natural gas revenues (in thousands):				
Oil	\$79,201	\$98,394	\$134,395	\$189,009
NGL	14,120	14,081	23,172	27,268
Natural gas	9,205	13,079	18,101	27,395
Total revenues	\$102,526	\$125,554	\$175,668	\$243,672
Average sales prices:				
Oil, realized (\$/Bbl) ⁽³⁾	\$39.37	\$50.77	\$33.45	\$45.99
NGL, realized (\$/Bbl) ⁽³⁾	\$12.24	\$12.85	\$10.44	\$13.08
Natural gas, realized (\$/Mcf) ⁽³⁾	\$1.31	\$1.82	\$1.31	\$1.97
Average price, realized (\$/BOE) ⁽³⁾	\$23.64	\$29.65	\$20.56	\$28.64
Oil, hedged (\$/Bbl) ⁽⁴⁾	\$58.86	\$72.39	\$57.85	\$70.87
NGL, hedged (\$/Bbl) ⁽⁴⁾	\$12.24	\$12.85	\$10.44	\$13.08
Natural gas, hedged (\$/Mcf) ⁽⁴⁾	\$2.13	\$2.29	\$2.10	\$2.32
Average price, hedged (\$/BOE) ⁽⁴⁾	\$34.00	\$40.36	\$33.33	\$41.22

(1) BOE is calculated using a conversion rate of six Mcf per one Bbl.

(2) The volumes presented are based on actual results and are not calculated using the rounded numbers presented in the table above.

(3) Realized oil, NGL and natural gas prices are the actual prices realized at the wellhead adjusted for quality, transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the wellhead. The prices presented are based on actual results and are not calculated using the rounded numbers presented in the table above.

Hedged prices reflect the after-effect of our hedging transactions on our average sales prices. Our calculation of such after-effects includes current period settlements of matured derivatives in accordance with GAAP and an

(4) adjustment to reflect premiums incurred previously or upon settlement that are attributable to instruments that settled in the period. The prices presented are based on actual results and are not calculated using the rounded numbers presented in the table above.

The following table presents cash settlements received for matured derivatives and premiums incurred previously or upon settlement attributable to instruments that settled during the periods utilized in our calculation of the hedged prices presented above:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cash settlements received for matured derivatives:				
Oil	\$41,616	\$42,972	\$102,308	\$104,558
Natural gas	5,766	3,624	11,011	5,179
Total	\$47,382	\$46,596	\$113,319	\$109,737
Premiums paid attributable to contracts that matured during the respective period:				
Oil	\$(2,413)	\$(1,073)	\$(4,263)	\$(2,318)
Natural gas	—	(176)	—	(352)
Total	\$(2,413)	\$(1,249)	\$(4,263)	\$(2,670)

Changes in prices and volumes caused the following changes to our oil, NGL and natural gas revenues between the three months ended June 30, 2016 and 2015:

(in thousands)	Oil	NGL	Natural gas	Total net dollar effect of change
2015 Revenues	\$98,394	\$14,081	\$13,079	\$125,554
Effect of changes in price	(22,921)	(704)	(3,570)	(27,195)
Effect of changes in volumes	3,728	743	(304)	4,167
2016 Revenues	\$79,201	\$14,120	\$9,205	\$102,526

Changes in prices and volumes caused the following changes to our oil, NGL and natural gas revenues between the six months ended June 30, 2016 and 2015:

(in thousands)	Oil	NGL	Natural gas	Total net dollar effect of change
2015 Revenues	\$189,009	\$27,268	\$27,395	\$243,672
Effect of changes in price	(50,378)	(5,855)	(9,193)	(65,426)
Effect of changes in volumes	(4,236)	1,759	(101)	(2,578)
2016 Revenues	\$134,395	\$23,172	\$18,101	\$175,668

Oil revenue. Our oil revenue is a function of oil production volumes sold and average sales prices received for those volumes. The decrease in oil revenue of \$19.2 million, or 20%, for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015, is mainly due to a 22% decrease in average oil prices realized, partially offset by a 4% increase in oil production.

The decrease in oil revenue of \$54.6 million, or 29%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, is mainly due to a 27% decrease in average oil prices realized and a 2% decrease in oil production.

See "—Results of operations - midstream and marketing" for a discussion of our revenue from sales of purchased oil, NGL and natural gas revenues. Our NGL and natural gas revenues are a function of NGL and natural gas production volumes sold and average sales prices received for those volumes. NGL revenue of \$14.1 million remained mostly unchanged for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The decrease in natural gas revenue of \$3.9 million, or 30%, for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015, is mainly due to a 28% decrease in average natural gas prices realized.

The decrease in NGL revenue of \$4.1 million, or 15%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, is mainly due to a 20% decrease in average NGL prices realized, partially offset by a 6% increase in NGL production. The decrease in natural gas revenue of \$9.3 million, or 34%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, is mainly due to a 34% decrease in average natural gas prices realized.

Costs and expenses

The following table sets forth information regarding costs and expenses and average costs per BOE sold for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands except for per BOE sold data)	2016	2015	2016	2015
Costs and expenses:				
Lease operating expenses	\$19,225	\$29,206	\$39,743	\$61,586
Production and ad valorem taxes	7,982	9,500	14,417	18,586
Midstream service expenses	1,178	1,597	1,787	3,171
Minimum volume commitments	—	3,579	—	5,235
Costs of purchased oil	44,012	54,417	76,958	85,617
General and administrative ⁽¹⁾	20,502	23,208	39,953	45,063
Restructuring expenses	—	—	—	6,042
Accretion of asset retirement obligations	860	593	1,704	1,172
Depletion, depreciation and amortization	34,177	72,112	75,655	144,054
Impairment expense	963	489,599	162,027	490,477
Total	\$128,899	\$683,811	\$412,244	\$861,003
Average costs per BOE sold:				
Lease operating expenses	\$4.43	\$6.90	\$4.65	\$7.24
Production and ad valorem taxes	1.84	2.24	1.69	2.18
Midstream service expenses	0.27	0.38	0.21	0.37
General and administrative ⁽¹⁾	4.73	5.48	4.68	5.30
Depletion, depreciation and amortization	7.88	17.03	8.86	16.93
Total	\$19.15	\$32.03	\$20.09	\$32.02

General and administrative includes non-cash stock-based compensation, net of amounts capitalized, of \$6.1 (1) million and \$6.3 million for the three months ended June 30, 2016 and 2015, respectively, and \$9.9 million and \$11.1 million for the six months ended June 30, 2016 and 2015, respectively.

Lease operating expenses. Lease operating expenses, which include workover expenses, decreased by \$10.0 million, or 34%, and \$21.8 million, or 35%, for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015. Previous investments in field infrastructure, primarily in our four production corridors, including water takeaway and recycling facilities and centralized compression, have lowered expenses and reduced well downtime. We continue to focus on the usage and procurement of products and services related to direct operating expenses.

Production and ad valorem taxes. Production and ad valorem taxes decreased by \$1.5 million, or 16%, and \$4.2 million, or 22%, for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015. This change is mainly due to a decrease in production taxes of \$1.1 million and \$3.3 million for the three and six months ended June 30, 2016 compared to the same periods in 2015 as a result of the corresponding decrease in oil, NGL and natural gas revenues. Production taxes are based on and fluctuate in proportion to our oil, NGL and natural gas revenue.

Midstream service expenses. See "—Results of operations - midstream and marketing" for a discussion of these expenses.

Minimum volume commitments. See "—Results of operations - midstream and marketing" for a discussion of these expenses.

Costs of purchased oil. See "—Results of operations - midstream and marketing" for a discussion of these expenses.

General and administrative ("G&A"). The table below shows the changes in the significant components of G&A expense for the periods presented:

(in thousands)	Three months ended June 30, 2016 compared to 2015	Six months ended June 30, 2016 compared to 2015
Changes in G&A:		
Performance unit awards	\$ (678)	\$ (1,674)
Salaries, benefits and bonuses, net of amounts capitalized	(1,610)	(1,424)
Stock-based compensation, net of amounts capitalized	(195)	(1,145)
Professional fees	(714)	(1,104)
Other	491	237
Total changes in G&A	\$ (2,706)	\$ (5,110)

G&A expense, excluding stock-based compensation, decreased by \$2.5 million, or 15%, and \$4.0 million, or 12%, for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. One of the main contributors to these decreases was the expense incurred for our 2013 Performance Unit Awards of \$1.0 million and \$1.7 million during the three and six months ended June 30, 2015, respectively. There was no comparable expense during the three and six months ended June 30, 2016. The performance criteria of these awards were satisfied on December 31, 2015, were paid during the first quarter of 2016 and were accounted for as liability awards.

Other significant contributors to the decreases in G&A expense, excluding stock-based compensation, are (i) reduced personnel expenses and (ii) a decrease in professional fees primarily due to a decrease in nonrecurring projects.

Stock-based compensation, net of amounts capitalized, decreased by \$0.2 million, or 3%, and \$1.1 million, or 10%, for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. As a result of stockholder approval of the Amendment to the LTIP at our 2016 Annual Meeting of Stockholders, on May 25, 2016, the restricted stock awards, restricted stock options and performance awards that were contingent as of March 31, 2016 became granted on May 25, 2016, at which time we began recording expense. For further discussion of our stock-based compensation, see Note 6 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report.

The fair values for each of our restricted stock awards issued were calculated based on the value of our stock price on the grant date in accordance with GAAP and are being expensed on a straight-line basis over their associated requisite service periods. The fair values for each of our non-qualified restricted stock options awards were determined using a Black-Scholes valuation model in accordance with GAAP and are being expensed on a straight-line basis over their associated four-year requisite service periods.

Our performance share awards are accounted for as equity awards and are included in stock-based compensation expense. The fair values of the performance share awards issued were based on a projection of the performance of our stock price relative to a peer group, defined in each performance share awards' agreement, utilizing a forward-looking Monte Carlo simulation. The fair values for each of our performance share awards will not be re-measured after their initial grant-date valuation and are being expensed on a straight-line basis over their associated three-year requisite service periods.

See Notes 2.m and 6 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional information regarding our stock and performance based compensation.

Restructuring expenses. Restructuring expenses were for the first-quarter 2015 RIF that was undertaken to reduce expenses and better position ourselves for future operations in a low commodity price environment. Restructuring expenses of \$6.0 million were incurred during the six months ended June 30, 2015. No comparable expenses were recorded during the six months ended June 30, 2016. See Note 13 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for further discussion of the RIF.

Depletion, depreciation and amortization ("DD&A"). The following table provides components of our DD&A expense for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands except for per BOE sold data)	2016	2015	2016	2015
Depletion of evaluated oil and natural gas properties	\$30,630	\$68,545	\$68,457	\$137,273
Depreciation of midstream service assets	2,097	1,933	4,168	3,580
Depreciation and amortization of other fixed assets	1,450	1,634	3,030	3,201
Total DD&A	\$34,177	\$72,112	\$75,655	\$144,054
DD&A per BOE sold	\$7.88	\$17.03	\$8.86	\$16.93
DD&A decreased by \$37.9 million, or 53%, and \$68.4 million, or 47%, respectively, for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015, mainly due to our full cost ceiling impairments totaling \$2.4 billion during the year ended December 31, 2015 and \$161.1 million during the three months ended March 31, 2016.				

Impairment expense. Our net book value of evaluated oil and natural gas properties exceeded the full cost ceiling amount as of March 31, 2016 and as of June 30, 2015, and as a result, non-cash full cost ceiling impairments of \$161.1 million and \$488.0 million, respectively, were recorded. For further discussion of our non-cash full cost ceiling impairments, see Note 2.f to our unaudited consolidated financial statements included elsewhere in this Quarterly Report. Other less material components of impairment expense for the six months ended June 30, 2016 are \$1.0 million for materials and supplies as compared to \$2.3 million for materials and supplies and \$0.1 million for our line-fill for the six months ended June 30, 2015.

Non-operating income and expense. The following table sets forth the components of non-operating income and expense for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Non-operating income (expense):				
Loss on derivatives, net	\$(68,518)	\$(63,899)	\$(50,633)	\$(744)
Income from equity method investee	3,696	2,914	5,994	2,481
Interest expense	(23,512)	(23,970)	(47,217)	(56,384)
Interest and other income	11	173	110	296
Loss on early redemption of debt	—	(31,537)	—	(31,537)
Write-off of debt issuance costs	(842)	—	(842)	—
Loss on disposal of assets, net	(141)	(1,081)	(301)	(1,843)
Non-operating expense, net	\$(89,306)	\$(117,400)	\$(92,889)	\$(87,731)

Loss on derivatives, net. The table below shows the changes in the components of loss on derivatives, net for the periods presented:

	Three months ended June 30, 2016 compared to 2015	Six months ended June 30, 2016 compared to 2015
(in thousands)		
Changes in loss on derivatives, net:		
Fair value of derivatives outstanding	\$(5,405)	\$(133,471)
Early terminations of derivatives received	—	80,000
Cash settlements received for matured derivatives	786	3,582
Total changes in loss on derivatives, net	\$(4,619)	\$(49,889)

The change in fair value of derivatives outstanding for the three and six months ended June 30, 2016 compared to the same periods in 2015 is the result of the changing relationship between our outstanding contract prices and the associated forward curves used to calculate the fair value of our derivatives in relation to expected market prices. In general, we experience gains during periods of decreasing market prices and losses during periods of increasing market prices. The change in loss on derivatives, net for the six months ended June 30, 2016 compared to 2015 was partially offset by proceeds received in a hedge restructuring in which we early terminated floors of certain derivative contract collars, resulting in a termination amount due to us of \$80.0 million. The \$80.0 million was settled in full by applying the proceeds to the premiums on two new

derivatives entered into as part of the hedge restructuring. Cash settlements received for matured derivatives are based on the cash settlement prices of our matured derivatives compared to the prices specified in the derivative contracts. See Notes 2.e, 8 and 9 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report and "Item 3. Quantitative and Qualitative Disclosures About Market Risk" for additional information regarding our derivatives.

Income from equity method investee. Income from equity method investee increased by \$0.8 million, or 27%, and \$3.5 million, or 142%, for the three and six months ended June 30, 2016 compared to the same periods in 2015.

During the six months ended June 30, 2016, Medallion, our equity method investee, continued expansion activities on existing portions of its pipeline infrastructure in order to gather additional third-party oil production. Medallion began recognizing revenue during the first quarter of 2015 due to its main pipeline becoming fully operational. The Medallion pipeline system transported 99,000 barrels of oil per day ("BOPD") and 35,000 BOPD for the three months ended June 30, 2016 and 2015, respectively, and 91,000 BOPD and 25,000 BOPD during the six months ended June 30, 2016 and 2015, respectively.

Interest expense. The table below shows the changes in the significant components of interest expense for the periods presented:

(in thousands)	Three months ended June 30, 2016 compared to 2015	Six months ended June 30, 2016 compared to 2015
Changes in interest expense:		
January 2019 Notes	\$ (867)	\$ (13,865)
March 2023 Notes	—	4,679
Senior Secured Credit Facility, net of capitalized interest	426	200
Other	(17)	(181)
Total change in interest expense	\$ (458)	\$ (9,167)

Interest expense decreased by \$0.5 million, or 2%, and \$9.2 million, or 16%, for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. These decreases are primarily due to the early redemption of the January 2019 Notes on April 6, 2015, which is partially offset by the issuance of the March 2023 Notes. The March 2023 Notes, which began accruing interest on March 18, 2015, have both a lower interest rate and a lower principal amount than the January 2019 Notes.

Loss on disposal of assets, net. Loss on disposal of assets, net decreased by \$0.9 million and \$1.5 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015 as a result of lower losses related to the sales and write-off of materials and supplies and other fixed assets during 2016 as compared to 2015.

Income tax benefit. The fluctuations in loss before income tax benefit are shown in the table below:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Loss before income taxes	\$(71,432)	\$(618,880)	\$(251,803)	\$(615,709)
Income tax benefit	—	221,846	—	218,203
Net loss	\$(71,432)	\$(397,034)	\$(251,803)	\$(397,506)

During the year ended December 31, 2015, we recorded a valuation allowance against our net deferred tax asset due to uncertainties in the timing of the realization of our deferred tax assets. Because of continued uncertainties in the oil and gas markets, we recorded an additional valuation allowance of \$83.7 million during the six months ended June 30, 2016. Due to the recording of these valuation allowances, our effective rates for the current year are not comparable to prior years. For the three and six months ended June 30, 2015, our effective tax rate was 36% and 35%, respectively. For further discussion of our valuation allowance, see Note 7 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report.

During the three and six months ended June 30, 2016 and 2015, certain shares related to restricted stock awards vested at times when our stock price was lower than the fair value of those shares on the grant date. As a result, the income tax deduction related to such shares is less than the expense previously recognized for book purposes. During the three

and six months ended June 30, 2016, certain stock options were exercised, for which the income tax deduction related to the options' intrinsic value is less than the expense previously recognized for book purposes. There were no stock options exercised during the three and six months ended June 30, 2015. As a result of these differences in book compensation expense and related tax deduction, the tax impact of these shortfalls decreased by \$0.2 million and increased by \$1.2 million for the three and six months ended June 30, 2016 compared to the same periods in 2015.

We utilize a one-pool approach when accounting for the pool of windfall tax benefits in which employees and non-employees are grouped into a single pool. As of June 30, 2016 and 2015, we did not have any eligible windfall tax benefits to offset future shortfalls as no excess tax benefits had been recognized, and therefore the tax impact of these shortfalls is included in income tax expense for these respective periods. We expect income tax provisions for future reporting periods will be impacted by this stock compensation tax deduction shortfall; however, we cannot predict the stock compensation shortfall impact because of dependency upon the future market price of our stock. See Notes 6.a, 6.b and 7 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional information.

Results of operations - midstream and marketing

The following table presents selected financial information regarding our midstream and marketing operating segment for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Natural gas sales	\$—	\$221	\$—	\$333
Midstream service revenues	11,138	4,362	22,405	8,045
Sales of purchased oil	42,615	55,051	74,229	86,318
Total revenues	53,753	59,634	96,634	94,696
Midstream service expenses, including minimum volume commitments	6,572	998	13,081	4,340
Costs of purchased oil	44,012	54,417	76,958	85,617
General and administrative ⁽¹⁾	1,684	1,861	3,456	3,938
Depreciation and amortization ⁽²⁾	2,208	2,125	4,394	3,810
Other operating costs and expenses ⁽³⁾	54	45	106	353
Operating income (loss)	\$(777)	\$188	\$(1,361)	\$(3,362)
Other financial information:				
Income from equity method investee	\$3,696	\$2,914	\$5,994	\$2,481
Interest expense ⁽⁴⁾	\$(1,462)	\$(1,125)	\$(2,864)	\$(2,452)
Loss on early redemption of debt ⁽⁵⁾	\$—	\$(1,481)	\$—	\$(1,481)

G&A expense was allocated based on the number of employees in the midstream and marketing segment as of June 30, 2016 and 2015. Certain components of G&A expense, primarily payroll, deferred compensation and vehicle expenses, were not allocated but were actual expenses for each segment. Land and geology expenses were not allocated to the midstream and marketing segment.

Depreciation and amortization were actual expenses for the midstream and marketing segment with the exception of the allocation of depreciation of other fixed assets, which was based on the number of employees in the midstream and marketing segment as of June 30, 2016 and 2015.

Other operating costs and expenses consist of accretion of asset retirement obligations for the three and six months ended June 30, 2016 and 2015 and restructuring expense and impairment for the six months ended June 30, 2015. These are actual costs and expenses and were not allocated.

Interest expense was allocated to the midstream and marketing segment based on gross property and equipment and life-to-date contributions to the Company's equity method investee as of June 30, 2016 and 2015.

Loss on early redemption of debt was allocated to the midstream and marketing segment based on gross property and equipment and life-to-date contributions to the Company's equity method investee as of June 30, 2015.

Natural gas sales. These revenues are related to our midstream and marketing segment providing our exploration and production segment with processed natural gas for use in the field. The corresponding cost component of these transactions are included in "Midstream service expenses." See Note 16 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional information on the operating segments.

Midstream service revenues. Our midstream service revenues from operations increased by \$6.8 million and \$14.4 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. This

increase is mainly due to (i) water service revenue that we began recognizing in the third quarter of 2015 and (ii) an increase in volumes of natural gas provided for natural gas lift mainly in our production corridors over the prior periods.

Sales of purchased oil. Sales of purchased oil decreased by \$12.4 million and \$12.1 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to the decrease in oil prices. We purchase oil from third parties in West Texas, transport it on the Bridgetex Pipeline and sell it to a third party in the Houston market.

Midstream service expenses, including minimum volume commitments. Midstream service expenses, including minimum volume commitments in 2015, increased by \$5.6 million and \$8.7 million for the three and six months ended June 30, 2016 compared to the same periods in 2015. Midstream service expenses primarily represent costs incurred to operate and maintain our (i) oil and natural gas gathering and transportation systems and related facilities, (ii) centralized oil storage tanks, (iii) natural gas lift, rig fuel and centralized compression infrastructure and (iv) water storage, recycling and transportation facilities. The increases are due to continued expansion of the midstream service component of our business.

Costs of purchased oil. Costs of purchased oil decreased by \$10.4 million and \$8.7 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to the decrease in oil prices. These costs include purchasing oil from third parties and transporting it on the Bridgetex Pipeline.

G&A. Our consolidated G&A expense has decreased for the three and six months ended June 30, 2016 compared to the same periods in 2015. See "—Results of operations consolidated" for a discussion of these costs.

Depreciation and amortization. Depreciation and amortization increased by \$0.1 million and \$0.6 million for the three and six months ended June 30, 2016 compared to the same periods in 2015 due to the continued expansion of our midstream service infrastructure.

Income from equity method investee. We own 49% of the ownership units of Medallion. As such, we account for this investment under the equity method of accounting with our proportionate share of net income reflected in the unaudited consolidated statements of operations as "Income from equity method investee" and the carrying amount reflected in the unaudited consolidated balance sheets as "Investment in equity method investee." During the year ended December 31, 2015, Medallion began recognizing revenue due to its main pipeline becoming fully operational. See Note 14 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional information regarding this investment.

Interest expense. Interest expense increased by \$0.3 million and \$0.4 million for three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. Interest is allocated to the midstream and marketing segment based on its gross property and equipment and life-to-date contributions to its equity method investee. We have expanded the midstream and marketing component of our business and built out our service facilities in the past year in addition to increasing our capital contributions to Medallion compared to prior periods, thereby increasing the interest expense that is allocated to this segment. These increases are slightly offset by significant decreases in our consolidated interest expense. See "—Results of operations consolidated" for a discussion of these decreases.

Liquidity and capital resources

Our primary sources of liquidity have been cash flows from operations, proceeds from equity offerings, proceeds from senior unsecured note offerings, borrowings under our Senior Secured Credit Facility and proceeds from asset dispositions. We believe cash flows from operations (including our hedging program) and availability under our Senior Secured Credit Facility provide sufficient liquidity to manage our cash needs and contractual obligations and to fund expected capital expenditures. Our primary operational uses of capital have been for the acquisition, exploration and development of oil and natural gas properties, LMS' infrastructure development and investments in Medallion. A significant portion of our capital expenditures can be adjusted and managed by us. We continually monitor the capital markets and our capital structure and consider which financing alternatives, including equity and debt capital resources, joint ventures and asset sales, are available to meet our future planned or accelerated capital expenditures. We may make changes to our capital structure from time to time, with the goal of maintaining financial flexibility, preserving or improving liquidity and/or achieving cost efficiency. Such financing alternatives, including capital market transactions and debt repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

We continually seek to maintain a financial profile that provides operational flexibility. However, as evidenced by the decline in our Realized Prices used in our reserves compared to the prior year, the decrease in oil, NGL and natural

gas prices may have a negative impact on our ability to raise additional capital and/or maintain our desired levels of liquidity. As of August 2, 2016, we had \$745.0 million available for borrowings under our Senior Secured Credit Facility. We believe that our operating cash flow and the aforementioned liquidity sources provide us with the financial resources to implement our planned

exploration and development activities. We use derivatives to reduce exposure to fluctuations in the prices of oil, NGL and natural gas. As of August 3, 2016, approximately 95% of our anticipated oil production for the last six months of 2016 is hedged at a weighted-average floor price of \$67.13 per Bbl and approximately 65% of our anticipated natural gas production for the last six months of 2016 is hedged at a weighted-average floor price of \$3.00 per MMBtu. The following table summarizes our hedge positions that were in place as of August 3, 2016 for the calendar years presented:

	Remaining year 2016	Year 2017	Year 2018
Oil positions: ⁽¹⁾⁽²⁾			
Total volume hedged with floor price (Bbl)	3,722,700	5,684,875	2,144,375
Weighted-average floor price (\$/Bbl)	\$ 67.13	\$ 57.01	\$ 55.98
NGL positions: ⁽¹⁾⁽³⁾			
Total volume hedged with floor price (Bbl)			