Laredo Petroleum, Inc.
Form 10-Q
November 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
or
o 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 incorporation or organization)	(I.R.S. Employer 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 ý No o
Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
Number of shares of registrant's common stock outstanding as of November 1, 2018: 233,882,020

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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 oil, natural gas liquids ("NGL") and natural gas prices, including in our area of operation in the Permian Basin;
- our ability to discover, estimate, develop and replace oil, NGL and natural gas reserves;
- the long-term performance of wells that were completed using different technologies;
- 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;
- the availability and costs of drilling and production equipment, supplies, labor and oil and natural gas processing and other services;
- the availability and costs of sufficient pipeline and transportation facilities and gathering and processing capacity in the Permian Basin, including the impact on steel costs and supplies following the Administration's imposed 25% global tariffs on certain imported steel mill products;
- our ability to maintain the borrowing capacity under our Fifth Amended and Restated Senior Secured Credit Facility (as amended, the "Senior Secured Credit Facility") 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 recruit and retain the qualified personnel necessary to operate our business;
- our ability to generate sufficient cash to service our indebtedness, fund our capital requirements and generate future profits;
- the impact of share repurchases or our suspension or discontinuation of the share repurchase program at any time;
- the potential negative impact on production of oil, NGL and natural gas from our wells due to tighter spacing of our wells;
- the potential impact on our inventory of future wells from increased spacing and/or decreased well performance;
- our ability to hedge and regulations that affect our ability to hedge;
- revisions to our reserve estimates as a result of changes in commodity prices and other uncertainties;
- impacts to our financial statements as a result of impairment write-downs;
- 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;
- risks related to the geographic concentration of our assets;

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- changes in the regulatory environment and changes in United States or international legal, political, administrative or economic conditions, including regulations that prohibit or restrict our ability to apply hydraulic fracturing to our oil and natural gas wells and to access and dispose of water used in these operations;
- legislation or regulations that prohibit or restrict our ability to drill new allocation wells;
- our ability to execute our strategies;
- competition in the oil and natural gas industry;
- the adverse outcome and impact of litigation, legal proceedings, investigations and insurance or other claims, including the adverse outcome and impact of pending or protracted litigation;
- drilling and operating risks, including risks related to hydraulic fracturing activities;
- our 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
- the impact of the new tax laws enacted on December 22, 2017.

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, 2017 (the "2017 Annual Report"), and under "Part II, Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (the "Second Quarter 2018 Quarterly Report") and those set forth from time to time in our other filings with the Securities and Exchange Commission (the "SEC"). These documents are available through our website or through the SEC's Electronic Data Gathering and Analysis Retrieval system at http://www.sec.gov. In light of such risks and uncertainties, we caution you not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report, or if earlier, as of the date they were made. We do not intend to, and disclaim any obligation to, update or revise any forward-looking statements unless required by securities law.

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Part I

Item 1. Consolidated Financial Statements (Unaudited)

Laredo Petroleum, Inc.
Consolidated balance sheets
(in thousands, except share data)
(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 50,407	$ 112,159
Accounts receivable, net	117,581	100,645
Derivatives	3,074	6,892
Other current assets	18,465	15,686
Total current assets	189,527	235,382
Property and equipment:		
Oil and natural gas properties, full cost method:		
Evaluated properties	6,589,327	6,070,940
Unevaluated properties not being depleted	147,690	175,865
Less accumulated depletion and impairment	(4,798,527)	(4,657,466)
Oil and natural gas properties, net	1,938,490	1,589,339
Midstream service assets, net	132,415	138,325
Other fixed assets, net	42,264	40,721
Property and equipment, net	2,113,169	1,768,385
Derivatives	—	3,413
Other noncurrent assets, net	17,078	16,109
Total assets	$ 2,319,774	$ 2,023,289
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 86,637	$ 58,341
Accrued capital expenditures	38,188	82,721
Undistributed revenue and royalties	53,239	37,852
Derivatives	44,060	22,950
Other current liabilities	37,145	75,555
Total current liabilities	259,269	277,419
Long-term debt, net	963,191	791,855
Derivatives	20,945	384
Asset retirement obligations	55,684	53,962
Other noncurrent liabilities	5,573	134,090
Total liabilities	1,304,662	1,257,710
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized and zero issued as of September 30, 2018 and December 31, 2017	—	—
Common stock, $0.01 par value, 450,000,000 shares authorized and 233,957,811 and 242,521,143 issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	2,340	2,425

Additional paid-in capital	2,365,740	2,432,262
Accumulated deficit	(1,352,968)	(1,669,108)
Total stockholders' equity	1,015,112	765,579
Total liabilities and stockholders' equity	$ 2,319,774	$ 2,023,289

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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues:				
Oil sales	$160,007	$110,194	$469,972	$313,875
NGL sales	50,814	27,700	115,979	68,329
Natural gas sales	15,043	19,664	45,908	55,927
Midstream service revenues	2,255	2,446	6,590	8,148
Sales of purchased oil	51,627	45,814	252,039	135,546
Total revenues	279,746	205,818	890,488	581,825
Costs and expenses:				
Lease operating expenses	23,873	19,594	68,466	56,690
Production and ad valorem taxes	14,015	9,558	38,232	26,811
Transportation and marketing expenses	5,036	—	6,570	—
Midstream service expenses	728	1,174	1,824	2,986
Costs of purchased oil	51,210	47,385	252,452	141,661
General and administrative	23,397	25,000	74,956	72,605
Depletion, depreciation and amortization	55,963	41,212	152,278	113,327
Other operating expenses	1,114	1,443	3,341	3,906
Total costs and expenses	175,336	145,366	598,119	417,986
Operating income	104,410	60,452	292,369	163,839
Non-operating income (expense):				
Gain (loss) on derivatives, net	(32,245)	(27,441)	(69,211)	38,127
Income from equity method investee (see Note 3.c)	—	2,371	—	7,910
Interest expense	(14,845)	(23,697)	(42,787)	(69,590)
Other (expense) income	(267)	333	629	527
Loss on disposal of assets, net	(616)	(991)	(4,591)	(400)
Non-operating expense, net	(47,973)	(49,425)	(115,960)	(23,426)
Income before income taxes	56,437	11,027	176,409	140,413
Income tax benefit (expense):				
Current	381	—	381	—
Deferred	(1,768)	—	(1,768)	—
Total income tax expense:	(1,387)	—	(1,387)	—
Net income	$55,050	$11,027	$175,022	$140,413
Net income per common share:				
Basic	$0.24	$0.05	$0.75	$0.59
Diluted	$0.24	$0.05	$0.75	$0.57
Weighted-average common shares outstanding:				
Basic	230,605	239,306	233,228	239,017
Diluted	231,639	244,887	234,207	244,693

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

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Laredo Petroleum, Inc.
Consolidated statement of stockholders' equity
(in thousands)
(Unaudited)

	Common Stock		Additional paid-in capital	Treasury Stock (at cost)		Accumulated deficit	Total
	Shares	Amount		Shares	Amount		
Balance, December 31, 2017	242,521	$2,425	$2,432,262	—	$ —	$(1,669,108)	$765,579
Adjustment to the beginning balance of accumulated deficit upon adoption of ASC 606 (see Note 4.a)	—	—	—	—	—	141,118	141,118
Restricted stock awards	3,248	33	(33)	—	—	—	—
Restricted stock forfeitures	(266)	(3)	3	—	—	—	—
Share repurchases	—	—	—	11,049	(97,055)	—	(97,055)
Vested stock exchanged for tax withholding	—	—	—	517	(4,411)	—	(4,411)
Retirement of treasury stock	(11,566)	(115)	(101,351)	(11,566)	101,466	—	—
Exercise of stock options	21	—	86	—	—	—	86
Stock-based compensation	—	—	34,773	—	—	—	34,773
Net income	—	—	—	—	—	175,022	175,022
Balance, September 30, 2018	233,958	$2,340	$2,365,740	—	$ —	$(1,352,968)	$1,015,112

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

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Laredo Petroleum, Inc.
Consolidated statements of cash flows
(in thousands)
(Unaudited)

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$175,022	$140,413
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense	1,768	—
Depletion, depreciation and amortization	152,278	113,327
Non-cash stock-based compensation, net	28,748	26,877
Mark-to-market on derivatives:		
(Gain) loss on derivatives, net	69,211	(38,127)
Settlements (paid) received for matured derivatives, net	(5,943)	34,791
Settlements received for early terminations of derivatives, net	—	4,234
Change in net present value of derivative deferred premiums	564	199
Premiums paid for derivatives	(14,930)	(13,542)
Amortization of debt issuance costs	2,484	3,132
Income from equity method investee (see Note 3.c)	—	(7,910)
Other, net	9,290	3,445
Increase in accounts receivable	(18,591)	(2,973)
Increase in other current assets	(6,479)	(3,143)
Decrease (increase) in other noncurrent assets	346	(77)
Increase in accounts payable and accrued liabilities	28,296	11,575
Increase in undistributed revenues and royalties	15,387	6,384
Decrease in other current liabilities	(28,298)	(6,264)
Decrease in other noncurrent liabilities	(625)	(290)
Net cash provided by operating activities	408,528	272,051
Cash flows from investing activities:		
Acquisitions of oil and natural gas properties	(16,340)	—
Capital expenditures:		
Oil and natural gas properties	(522,470)	(381,165)
Midstream service assets	(5,764)	(11,680)
Other fixed assets	(5,945)	(3,604)
Investment in equity method investee (see Note 3.c)	—	(24,572)
Proceeds from disposition of equity method investee, net of selling costs (see Note 3.c)	1,655	—
Proceeds from dispositions of capital assets, net of selling costs	12,433	64,128
Net cash used in investing activities	(536,431)	(356,893)
Cash flows from financing activities:		
Borrowings on Senior Secured Credit Facility	190,000	155,000
Payments on Senior Secured Credit Facility	(20,000)	(70,000)
Share repurchases	(97,055)	—
Vested stock exchanged for tax withholding	(4,411)	(7,638)
Proceeds from exercise of stock options	86	358
Payments for debt issuance costs	(2,469)	(4,732)
Net cash provided by financing activities	66,151	72,988
Net decrease in cash and cash equivalents	(61,752)	(11,854)

Cash and cash equivalents, beginning of period	112,159	32,672
Cash and cash equivalents, end of period	$50,407	$20,818

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

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Note 1—Organization and basis of presentation

a. Organization

Laredo Petroleum, Inc. ("Laredo"), together with its wholly-owned subsidiaries, Laredo Midstream Services, LLC ("LMS") and Garden City Minerals, LLC ("GCM"), is an independent energy company focused on the acquisition, exploration and development of oil and natural gas properties, and midstream and marketing services, primarily in the Permian Basin of 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.

b. 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 accompanying unaudited 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, 2017 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 September 30, 2018, results of operations for the three and nine months ended September 30, 2018 and 2017 and cash flows for the nine months ended September 30, 2018 and 2017.

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 2017 Annual Report.

Significant accounting policies

See Note 2 "Basis of presentation and significant accounting policies" in the 2017 Annual Report for discussion of significant accounting policies.

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.

For further information regarding the estimates and assumptions, see Note 2.b "Use of estimates in the preparation of consolidated financial statements" in the 2017 Annual Report. Furthermore, see Note 7.c for a discussion of estimates pertaining to the Company's 2018 performance share awards.

Reclassifications

Certain amounts in the accompanying unaudited consolidated financial statements have been reclassified to conform to the 2018 presentation. These reclassifications had no impact on previously reported total assets, total liabilities, net income, stockholders' equity or total operating, investing or financing cash flows.

Note 2—Recently issued or adopted accounting pronouncements

The Company considers the applicability and impact of all accounting standard updates ("ASU") issued by the Financial Accounting Standards Board ("FASB") to the FASB Accounting Standards Codification ("ASC"). The discussion of the ASUs and a final rule issued by the SEC listed below were determined to be meaningful to the Company's unaudited consolidated financial statements and/or footnotes during the nine months ended September 30, 2018.

a. Revenue recognition

On January 1, 2018, the Company adopted ASC 606, Revenue from Contracts with Customers ("ASC 606"), using the modified retrospective approach of adoption. ASC 606 supersedes previous revenue recognition requirements in ASC 605, Revenue Recognition ("ASC 605"), and includes a five-step revenue recognition model to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. In addition, the new standard requires significantly expanded disclosures related to the nature, timing, amount and uncertainty of revenue and cash flows arising from contracts with customers. See Note 4 for further discussion of the ASC 606 adoption impact on the Company's unaudited consolidated financial statements and the Company's revenue recognition policies.

b. Leases

In February 2016, the FASB issued new guidance in ASC 842, Leases ("ASC 842"), which will supersede the current guidance in ASC 840, Leases ("ASC 840"). The core principle of the new guidance is that a lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term for leases currently classified as operating leases. For leases with a term of 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. In January 2018, the FASB issued new guidance in ASC 842 to provide an optional transition practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under ASC 840.

In July 2018, the FASB issued new guidance in ASC 842 to provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with ASC 840. An entity that elects this transition method must provide the required ASC 840 disclosures for all periods that continue to be reported in accordance with ASC 840.

The amendments in these ASUs are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The primary effect on the Company's consolidated financial statements will be to record assets and obligations for contracts currently recognized as operating leases with a term greater than 12 months and to evaluate operating leases with a term less than or equal to 12 months for accounting policy election. The Company has a team, including third-party consultants, to implement the standard and is implementing the software that will be used to track and account for lease activity. The Company anticipates that the adoption and implementation of ASC 842 will result in a material increase in assets and liabilities on the consolidated balance sheet but will not result in a material impact to the consolidated statement of operations. The estimate of the dollar value impact of the adoption is on-going.

The Company has made certain accounting policy decisions including that it plans to adopt the short-term lease recognition exemption, accounting for certain asset classes at a portfolio level, and establishing a balance sheet recognition capitalization threshold. The transition will utilize the modified retrospective approach to adopting the new standard that will be applied at the beginning of the period adopted (January 1, 2019). The Company will utilize the transition package of expedients to leases that commenced before the effective date. The Company expects for certain lessee asset classes to elect the practical expedient and not separate lease and non-lease components. For these asset classes, the agreements will be accounted for as a single lease component.

c. Business combinations

In January 2017, the FASB issued new guidance in ASC 805, Business Combinations, to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU provide a screen to determine when a set of assets and activities is not a business. The screen requires that when substantially all of the

fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments in this ASU require that to be considered a business, a set must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create an output.

The primary effect of adoption of this ASU is that, depending on the facts and circumstances of each transaction, more transactions could be accounted for as acquisitions of assets. The Company adopted this ASU on January 1, 2018 on a prospective basis, and the adoption did not have an effect on its unaudited consolidated financial statements. See Note 3.a for discussion of the Company's 2018 acquisitions of evaluated and unevaluated oil and natural gas properties, which were accounted for as asset acquisitions under this ASU.

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d. Fair value measurements

In August 2018, the FASB issued new guidance in ASC 820, Fair Value Measurement, to modify disclosure requirements. Of the amendments in the ASU, the below items affected the Company's fair value measurement disclosures in Note 9. Removed disclosure requirements that should be applied retrospectively to all periods presented are: (i) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (ii) the policy for timing of transfers between levels and (iii) the valuation processes for Level 3 fair value measurements. A modified disclosure requirement that should be applied prospectively is to clarify that the measurement uncertainty disclosure communicates information about the uncertainty in measurement as of the reporting date. A new disclosure requirement that should be applied prospectively is to disclose the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements. The Company has elected to early adopt this guidance upon the issuance of the ASU and has modified its disclosures accordingly in this Quarterly Report.

e. SEC disclosure update and simplification

In August 2018, the SEC issued Final Rule Release No. 33-10532, Disclosure Update and Simplification, which amends various SEC disclosure requirements that they have determined to be redundant, duplicative, overlapping, outdated or superseded. The amendments also extend the annual disclosure requirement of presenting the changes in stockholders' equity to interim periods. An analysis of changes in stockholders' equity will now be required for the current and comparative year-to-date interim periods. The Company has incorporated certain aspects of the final rule in this Quarterly Report and will complete the implementation of the final rule in the fourth quarter of 2018.

Note 3—Acquisitions and divestitures

a. 2018 Acquisitions of evaluated and unevaluated oil and natural gas properties

During the nine months ended September 30, 2018, through multiple transactions, the Company acquired 895 net acres of additional leasehold interests and working interests in 47 producing horizontal and vertical wells in Glasscock County, Texas for an aggregate purchase price of $16.3 million, net of post-closing adjustments. These acquisitions were accounted for as asset acquisitions.

b. 2018 Divestitures of evaluated and unevaluated oil and natural gas properties and midstream service assets

During the nine months ended September 30, 2018, through multiple transactions, the Company completed the sale of 3,070 net acres and working interests in 24 producing vertical and horizontal wells and associated midstream service assets in Glasscock County and Howard County in Texas to third-party buyers for an aggregate sales price of $12.0 million, net of post-closing adjustments. Of this amount, $11.5 million, net of post-closing adjustments, was recorded as adjustments to oil and natural gas properties pursuant to the rules governing full cost accounting. A loss of $1.0 million from the sale of the associated midstream service assets was included in the line item "Loss on disposal of assets, net" in the unaudited consolidated statements of operations. Effective at the closings, the operations and cash flows of these oil and natural gas properties and midstream service assets were eliminated from the ongoing operations of the Company, and the Company has no continuing involvement in the properties. These divestitures did not represent a strategic shift and will not have a major effect on the Company's future operations or financial results.

c. 2017 Medallion sale

Medallion Gathering & Processing, LLC, a Texas limited liability company formed on October 12, 2012, which, together with its wholly-owned subsidiaries (collectively, "Medallion"), was established for the purpose of developing midstream solutions and providing midstream infrastructure to bring oil to market from the Midland Basin. Prior to the Medallion Sale (defined below), LMS held 49% of Medallion's ownership units. LMS and the third-party 51% interest-holder agreed that the voting rights of Medallion, the profit and loss sharing and the additional capital contribution requirements would be equal to the ownership unit percentage held. Additionally, Medallion required a super-majority vote of 75% for many key operating and business decisions. The Company determined that Medallion was a variable interest entity ("VIE"). However, LMS was not considered to be the primary beneficiary of the VIE because LMS did not have the power to direct the activities that most significantly affected Medallion's economic

performance. As such, prior to the Medallion Sale, Medallion was accounted for under the equity method of accounting. The Company's proportionate share of Medallion's net income is reflected in the unaudited consolidated statements of operations on the "Income from equity method investee" line item.
On October 30, 2017, LMS, together with Medallion Midstream Holdings, LLC, which is owned and controlled by an affiliate of the third-party interest-holder, The Energy & Minerals Group, completed the sale of 100% of the ownership interests

in Medallion to an affiliate of Global Infrastructure Partners ("GIP") for cash consideration of $1.825 billion (the "Medallion Sale"). LMS' net cash proceeds for its 49% ownership interest in Medallion in 2017 were $829.6 million, before post-closing adjustments and taxes, but after deduction of its proportionate share of fees and other expenses associated with the Medallion Sale. On February 1, 2018, closing adjustments were finalized and LMS received additional net cash of $1.7 million for total net cash proceeds before taxes of $831.3 million. The proceeds were used to pay borrowings on the Senior Secured Credit Facility in full, to redeem the May 2022 Notes (as defined below) and for working capital purposes. The Medallion Sale closed pursuant to the membership interest purchase and sale agreement, which provides for potential post-closing additional cash consideration that is structured based on GIP's realized profit at exit. There can be no assurance as to when and whether the additional consideration will be paid. The Medallion Sale did not represent a strategic shift and will not have a major effect on the Company's future operations or financial results.

LMS has a Transportation Services Agreement (the "TA") with a wholly-owned subsidiary of Medallion under which LMS receives firm transportation of the Company's crude oil production from Reagan County and Glasscock County in Texas to Colorado City, Texas that continues to be in effect after the Medallion Sale. Historically, the Company's crude oil purchasers have fulfilled the commitment by transporting crude oil, purchased from the Company, under the TA, as agent. As a result of the Company's continuing involvement with Medallion by guaranteeing cash flows under the TA, the Company recorded a deferred gain in the amount of its maximum exposure to loss related to such guarantees that would have been amortized over the TA's firm commitment transportation term through 2024 had the Company not adopted new revenue recognition guidance on January 1, 2018. The deferred gain is included in the unaudited consolidated balance sheets in each of the "Other current liabilities" and "Other noncurrent liabilities" line items as of December 31, 2017. See Note 4.a for discussion of the impact to the deferred gain upon the adoption of ASC 606.

d. 2017 Divestiture of evaluated and unevaluated oil and natural gas properties

In January 2017, the Company completed the sale of 2,900 net acres and working interests in 16 producing vertical wells in the Midland Basin to a third-party buyer for a purchase price of $59.7 million. After transaction costs reflecting an economic effective date of October 1, 2016, the proceeds were $59.5 million, net of working capital and post-closing adjustments. A significant portion of these proceeds was used to pay down borrowings on the Senior Secured Credit Facility. The purchase price was recorded as an adjustment to oil and natural gas properties pursuant to the rules governing full cost accounting. Effective at closing, the operations and cash flows of these oil and natural gas properties were eliminated from the ongoing operations of the Company, and the Company has no continuing involvement in the properties. This divestiture did not represent a strategic shift and will not have a major effect on the Company's future operations or financial results.

e. Exchange of unevaluated oil and natural gas properties

From time to time, the Company exchanges undeveloped acreage with third parties. The exchanges are recorded at fair value and the difference is accounted for as an adjustment of capitalized costs with no gain or loss recognized pursuant to the rules governing full cost accounting, unless such adjustment would significantly alter the relationship between capitalized costs and proved reserves of oil, NGL and natural gas.

Note 4—Revenue recognition

a. Impact of ASC 606 adoption

Upon adoption of ASC 606 on January 1, 2018, for the three and nine months ended September 30, 2018, the Company reclassified certain firm transportation payments on excess pipeline capacity and other contractual penalties due to customers, historically included in the "Other operating expenses" line item in the unaudited consolidated statements of operations, and netted them with the revenue stream from which they derive as these payments to customers do not relate to the provision of a distinct good or service to the customer. In addition, there was an impact upon adoption related to the treatment of the gain on the Medallion Sale.

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The impact of the adoption of ASC 606 on the results of operations for the periods presented is as follows:

(in thousands)	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	As computed under ASC 605	As reported under ASC 606	Increase/(decrease)	As computed under ASC 605	As reported under ASC 606	Increase/(decrease)
Revenues:						
Oil sales	$160,246	$160,007	$ (239)	$472,496	$469,972	$ (2,524)
NGL sales	$50,814	$50,814	$ —	$115,979	$115,979	$ —
Natural gas sales	$15,043	$15,043	$ —	$45,908	$45,908	$ —
Costs and expenses:						
Other operating expenses	$1,353	$1,114	$ (239)	$5,865	$3,341	$ (2,524)
Net income	$55,050	$55,050	$ —	$175,022	$175,022	$ —

At December 31, 2017, the Medallion Sale was accounted for under the real estate guidance in ASC 360-20, Property, Plant, and Equipment ("ASC 360-20"), and the Company's maximum exposure to loss associated with future commitments under the TA was $141.1 million that was not recorded in the Company's unaudited consolidated balance sheets. Under ASC 360-20, as a result of the Company's continuing involvement with Medallion by guaranteeing cash flows under the TA, the Company recorded a deferred gain in the amount of its maximum exposure to loss related to such guarantees. This deferred gain would have been amortized over the TA's firm commitment transportation term through 2024 had the Company not adopted ASC 606 on January 1, 2018. See Note 3.c for further discussion of the Medallion Sale and the TA.

Upon the adoption of ASC 606, the guidance in ASC 360-20 was superseded by ASC 860, Transfers and Servicing ("ASC 860"). The Medallion Sale is within the scope of ASC 860 and qualifies for sale accounting and recognition of the previously deferred gain because as of the date of the Medallion Sale (i) the Company transferred and legally isolated its full interests in Medallion to GIP, (ii) GIP received the right to pledge or exchange Medallion ownership interests at its full discretion and (iii) the Company did not have effective control over Medallion. Therefore, the deferred gain of $141.1 million was recognized as an adjustment to the beginning balance of accumulated deficit, presented in the unaudited consolidated statements of stockholders' equity, in accordance with the modified retrospective approach of adoption.

b. Revenue recognition

Oil, NGL and natural gas revenues are generally recognized at the point in time that control of the product is transferred to the customer. Midstream service revenues are generated through fees for products and services that need to be delivered by midstream infrastructure, including oil and liquids-rich natural gas gathering services as well as rig fuel, gas lift and water delivery, recycling and takeaway (collectively, "Midstream Services") and are recognized over time as the customer benefits from these services when provided. A more detailed summary of the underlying contracts that give rise to the Company's revenue and method of recognition is included below.

Oil sales and sales of purchased oil

Under its oil sales contracts, the Company sells produced or purchased oil at the delivery point specified in the contract and collects an agreed-upon index price, net of pricing differentials. The delivery point may be at the wellhead, the inlet of the purchaser's pipeline or nominated pipeline or the Company's truck unloading facility. At the delivery point, the purchaser typically takes custody, title and risk of loss of the product and, therefore, control as defined under ASC 606 typically passes at the delivery point. The Company recognizes revenue at the net price received when control transfers to the purchaser.

From time to time, the Company engages in transactions in which it sells oil at the lease and subsequently repurchases the same volume of oil from that customer at a downstream delivery point under a separate agreement ("Repurchase Agreement") for use in the sale to the final customer. The commercial reasoning for such transactions may vary. Where a Repurchase Agreement exists, the Company must evaluate whether the customer obtains control of the oil at the lease and therefore whether it is appropriate to recognize revenue for the lease sale. Where the Company has an obligation or a right to repurchase the oil, the customer does not obtain control of the oil because it is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from the oil even though it may have physical possession of the oil. If the Company repurchases the oil for less than the original selling price, such a transaction will be classified as a lease. If the Company repurchases the oil for equal to or more than the original selling price, then the transaction represents a financing arrangement unless there is only a short passage of time between the sale and repurchase, in which case any excess amount paid

represents an expense associated with the sale of oil to the final customer. The Company recognizes such repurchase expense and any transportation expenses incurred for the delivery of the oil to the final customer in the "Transportation and marketing expenses" line item in the accompanying unaudited consolidated statements of operations.

Under certain of its customer contracts, the Company is subject to firm transportation payments on excess pipeline capacity and other contractual penalties if it fails to deliver contractual minimum volumes to its customers. Such amounts are recorded as a reduction to the transaction price as these amounts do not represent payments to the customer for distinct goods or services and instead relate specifically to the failure to perform under the specific customer contract. Such amounts are recorded as a reduction to the transaction price when payment is determined as probable, typically when such a deficiency occurs.

NGL and natural gas sales

Under its natural gas processing contracts, the Company delivers produced natural gas to a midstream processing entity at the wellhead or the inlet of the processing entity's system. The processing entity processes the natural gas, sells the resulting NGL and residue gas to third parties and pays the Company for the NGL and residue gas with deductions that may include gathering, compression, processing and transportation fees. In these scenarios, the Company evaluates whether it is the principal or the agent in the transaction. For existing contracts, the Company has concluded that it is the agent in the ultimate sale to the third party and the midstream processing entity is the principal and that we have transferred control of unprocessed natural gas to the midstream processing entity; therefore, the Company recognizes revenue based on the net amount of the proceeds received from the midstream processing entity who represents the Company's customer. If for future contracts the Company was to conclude that it was the principal with the ultimate third party being the customer, the Company would recognize revenue for those contracts on a gross basis, with gathering, compression, processing, and transportation fees presented as an expense.

Midstream Services

Revenue from oil throughput agreements is recognized based on a rate per barrel for volumes transported. Under the Company's oil throughput agreements, a volumetric deduction is taken from customer oil as a pipeline loss allowance. While these amounts represent non-cash consideration under ASC 606, such deductions are immaterial. Revenue from natural gas throughput agreements is recognized based on a rate per MMbtu for volumes transported. Revenue from water delivery, recycling and takeaway is recognized based on the volumes of water for which the services are provided at the applicable contractual rate.

Imbalances

The Company recognizes revenue for all oil, NGL and natural gas sold to purchasers regardless of whether the sales are proportionate to the Company's ownership interest in the property. Production imbalances are recognized as a liability to the extent an imbalance on a specific property exceeds the Company's share of remaining proved oil, NGL and natural gas reserves. The Company is also subject to natural gas pipeline imbalances, which are recorded as accounts receivable or payable at values consistent with contractual arrangements with the owner of the pipeline. The Company did not have any producer or pipeline imbalance positions as of September 30, 2018 or December 31, 2017.

Significant judgments

The Company engages in various types of transactions in which unaffiliated midstream entities process the Company's liquids-rich natural gas and, in some scenarios, subsequently market resulting NGL and residue gas to third-party customers on the Company's behalf. These types of transactions require judgment to determine whether the Company is the principal or the agent in the contract and, as a result, whether revenues are recorded gross or net. For existing contracts, the Company has determined that it serves as the agent in the sale of products under certain natural gas processing and marketing agreements with unaffiliated midstream entities in accordance with the control model in ASC 606. As a result, the Company presents revenue on a net basis for amounts expected to be received from third-party customers through the marketing process, with expenses and deductions incurred subsequent to control of the product(s) transferring to the unaffiliated midstream entity being netted against revenue.

Transaction price allocated to remaining performance obligations

A significant number of the Company's product sales are short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC 606-10-50-14 that exempts the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

For the Company's product sales that have a contract term greater than one year and for its Midstream Services, the Company has utilized the practical expedient in ASC 606-10-50-14A that states that it is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under the Company's product sales contracts, each unit of product generally represents a separate performance obligation; therefore, future volumes are wholly unsatisfied. Under the Midstream Services contracts each unit of service represents a separate performance obligation and therefore performance obligations in respect of future services are wholly unsatisfied.

Contract balances

Under the Company's customer contracts, invoicing occurs once the Company's performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's contracts do not give rise to contract assets or liabilities under ASC 606.

Prior-period performance obligations

For sales of oil, NGL, natural gas and purchased oil, the Company records revenue in the month production is delivered to the purchaser. However, settlement statements and payment may not be received for 30 to 90 days after the date production is delivered and, as a result, the Company is required to estimate the amount of production that was delivered to the purchaser and the price that will be received for the sale of the product. The Company records the differences between estimates and the actual amounts received for product sales once payment is received from the purchaser. Such differences have historically not been significant. The Company uses knowledge of its properties, its properties' historical performance, spot market prices and other factors as the basis for these estimates. For the three and nine months ended September 30, 2018, revenue recognized related to performance obligations satisfied in prior reporting periods was not material.

Note 5—Property and equipment

The following table presents the Company's property and equipment as of the dates presented:

(in thousands)	September 30, 2018	December 31, 2017
Evaluated oil and natural gas properties	$ 6,589,327	$ 6,070,940
Less accumulated depletion and impairment	(4,798,527)	(4,657,466)
Evaluated oil and natural gas properties, net	1,790,800	1,413,474
Unevaluated oil and natural gas properties not being depleted	147,690	175,865
Midstream service assets	171,740	171,427
Less accumulated depreciation and impairment	(39,325)	(33,102)
Midstream service assets, net	132,415	138,325
Depreciable other fixed assets	50,420	48,957
Less accumulated depreciation and amortization	(26,415)	(23,150)
Depreciable other fixed assets, net	24,005	25,807
Land	18,259	14,914
Total property and equipment, net	$ 2,113,169	$ 1,768,385

For the three months ended September 30, 2018 and 2017, depletion expense for the Company's evaluated oil and natural gas properties was $7.94 per barrel of oil equivalent ("BOE") sold and $6.80 per BOE sold, respectively. For the nine months ended September 30, 2018 and 2017, depletion expense for the Company's evaluated oil and natural gas properties was $7.67 per BOE sold and $6.57 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 employee-related costs incurred for the purpose of exploring for or developing oil and natural gas properties, 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 employee-related 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 following table presents capitalized employee-related costs for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2018	2017	2018	2017
Capitalized employee-related costs	$5,837	$6,938	$19,101	$17,911

The Company excludes the costs directly associated with the 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 to 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 properties are assessed on a quarterly basis for possible impairment. 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 following table presents costs incurred in the acquisition, exploration and development of oil and natural gas properties, with asset retirement obligations included in evaluated property acquisition costs and development costs, for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2018	2017	2018	2017
Property acquisition costs (see Note 3.a):				—
Evaluated	$—	$—	$13,847	$—
Unevaluated	—	—	2,790	—
Exploration costs	7,502	7,136	18,747	28,337
Development costs	139,748	160,359	467,582	397,255
Total costs incurred	$147,250	$167,495	$502,966	$425,592

Note 6—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"). The Company may redeem, at its option, all or part of the March 2023 Notes at any time after March 15, 2018, at a price of 104.688% of face value with call premiums declining annually to 100% of face value on March 15, 2021 and thereafter plus accrued and unpaid interest to, but not including, the date of redemption.

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. The Company may redeem, at its option, all or part of the January 2022 Notes at any time after January 15, 2018, at a price of 102.813% of face value with call premiums declining annually to 100% of face value on January 15, 2020 and thereafter plus accrued and unpaid interest to, but not including, the date of redemption.

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 were due to mature on May 1, 2022 and bore 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 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 November 29, 2017 (the "May 2022 Notes Redemption Date"), utilizing a portion of the proceeds from the Medallion Sale, the entire $500.0 million outstanding principal amount of the May 2022 Notes was redeemed at a redemption price of 103.688% of the principal amount of the May 2022 Notes, plus accrued and unpaid interest up to, but not including, the May 2022 Notes Redemption Date. The Company recognized a loss on extinguishment of $23.8 million related to the difference between the redemption price and the net carrying amount of the extinguished May 2022 Notes.

d. Senior Secured Credit Facility

The Senior Secured Credit Facility matures on April 19, 2023, provided that if either the January 2022 Notes or March 2023 Notes have not been refinanced on or prior to the date (as applicable, the "Early Maturity Date") that is 90 days before their respective stated maturity dates, the Senior Secured Credit Facility will mature on such Early Maturity Date. As of September 30, 2018, the Senior Secured Credit Facility had a maximum credit amount of $2.0 billion, a borrowing base of $1.3 billion and an aggregate elected commitment of $1.2 billion, with $170.0 million outstanding and was subject to an interest rate of 3.44%. The Senior Secured Credit Facility contains both financial and non-financial covenants, all of which the Company was in compliance with as of September 30, 2018. Laredo is required to pay a 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 aggregate elected 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 $80.0 million. No letters of credit were outstanding as of September 30, 2018 or December 31, 2017. See Note 16 for discussion of items affecting the Senior Secured Credit Facility subsequent to September 30, 2018.

e. Long-term debt, net

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

	September 30, 2018			December 31, 2017		
(in thousands)	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	$(3,254)	$446,746	$450,000	$(3,987)	$446,013
March 2023 Notes	350,000	(3,555)	346,445	350,000	(4,158)	345,842
Senior Secured Credit Facility[1]	170,000	—	170,000	—	—	—

Total	$970,000	$(6,809)	$963,191	$800,000	$(8,145)	$791,855

(1) Debt issuance costs, net related to our Senior Secured Credit Facility of $7.4 million and $6.0 million as of September 30, 2018 and December 31, 2017, respectively, are reported in "Other assets, net" on the unaudited consolidated balance sheets.

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Note 7—Stockholders' equity and stock-based compensation

a. Share repurchase program

In February 2018, the Company's board of directors authorized a $200 million share repurchase program commencing in February 2018. The repurchase program expires in February 2020. Share repurchases under the share repurchase program may be made through a variety of methods, which may include open market purchases, privately negotiated transactions and block trades. The timing and actual number of share repurchases will depend upon several factors, including market conditions, business conditions, the trading price of the Company's common stock and the nature of other investment opportunities available to the Company. During the three months ended September 30, 2018, the Company repurchased 1,170,190 shares of common stock at a weighted-average price of $8.41 per common share for a total of $9.9 million under this program. During the nine months ended September 30, 2018, the Company repurchased 11,048,742 shares of common stock at a weighted-average price of $8.78 per common share for a total of $97.1 million under this program. All shares were retired upon repurchase.

b. Treasury stock

Treasury stock is recorded at cost, which includes incremental direct transaction costs, and is retired upon acquisition as a result from share repurchases under the share repurchase program or from the withholding of shares of stock to satisfy employee tax withholding obligations that arise upon the lapse of restrictions on their stock-based awards at the employees' election.

c. Stock-based compensation

The Company's Long-Term Incentive Plan (the "LTIP") provides for the granting of incentive awards in the form of restricted stock awards, stock option awards, performance share awards, performance unit awards and other awards. The LTIP provides for the issuance of up to 24,350,000 shares of Laredo's common stock.

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 are included in the "General and administrative" line item 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 or development of oil and natural gas properties into the full cost pool. Capitalized stock-based compensation is included in the "Evaluated properties" line item on the unaudited consolidated balance sheets.

Restricted stock awards

All service vesting 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. Restricted stock awards granted to officers and employees vest in a variety of vesting schedules that mainly include (i) 33%, 33% and 34% per year beginning on the first anniversary of the grant date and (ii) fully on the first anniversary of the grant date. Beginning August 2017, stock awards granted to non-employee directors vest immediately on the grant date. Restricted stock awards granted to non-employee directors prior to August 2017 vested on the first anniversary of the grant date.

The following table reflects the restricted stock award activity for the nine months ended September 30, 2018:

(in thousands, except for weighted-average grant-date fair value)	Restricted stock awards	Weighted-average grant-date fair value (per award)
Outstanding as of December 31, 2017	3,169	$ 12.81
Granted	3,248	$ 8.42
Forfeited	(266)	$ 10.35
Vested[1]	(1,851)	$ 12.21
Outstanding as of September 30, 2018	4,300	$ 9.90

(1) The total intrinsic value of vested restricted stock awards for the nine months ended September 30, 2018 was $16.1 million.

The Company utilizes the closing stock price on the grant date to determine the fair value of service vesting restricted stock awards. As of September 30, 2018, unrecognized stock-based compensation related to the restricted stock awards expected to vest was $26.5 million. Such cost is expected to be recognized over a weighted-average period of 1.87 years.

Stock option awards

Stock option awards granted under the LTIP vest and become exercisable in four equal installments on each of the four anniversaries of the grant date. As of September 30, 2018, the 2,577,205 outstanding stock option awards have a weighted-average exercise price of $12.66 and a weighted-average remaining contractual term of 6.37 years. There were de minimis exercises, forfeitures and cancellations of stock option awards during the nine months ended September 30, 2018. There were no grants of stock option awards during the nine months ended September 30, 2018. The Company utilizes the Black-Scholes option pricing model to determine the fair value of 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 expected volatility. As of September 30, 2018, unrecognized stock-based compensation related to stock option awards expected to vest was $5.0 million. Such cost is expected to be recognized over a weighted-average period of 1.67 years.

Performance share awards

Performance share awards, which the Company has determined are equity awards, are subject to a combination of market, performance and service vesting criteria. For awards with market criteria or portions of awards with market criteria, which include the RTSR Performance Percentage (as defined below), the ATSR Appreciation (as defined below) and the Company's total shareholder return ("TSR"), a Monte Carlo simulation prepared by an independent third party is utilized to determine the grant-date fair value and the associated expense is recognized on a straight-line basis over the three-year requisite service period of the awards. For portions of awards with performance criteria, which is the ROACE Percentage (as defined below), the grant-date fair value is equal to the Company's stock price on the grant date, and for each reporting period, the associated expense fluctuates and is trued-up based on an estimated probability of how many shares will be earned at the end of the three-year performance period. Any shares earned under performance share awards are expected to be issued in the first quarter following the completion of the requisite service period based on the achievement of certain market and performance criteria.

The following table reflects the performance share award activity for the nine months ended September 30, 2018:

(in thousands, except for weighted-average grant-date fair value)	Performance share awards	Weighted-average grant-date fair value (per award)
Outstanding as of December 31, 2017	2,745	$ 17.77
Granted[(1)]	1,389	$ 9.22
Forfeited	(149)	$ 14.83
Vested[(2)]	(454)	$ 16.23
Outstanding as of September 30, 2018	3,531	$ 14.55

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(1) The amount of stock potentially payable at the end of the performance period for the performance share awards granted on February 16, 2018 will be determined based on three criteria: (i) relative three-year total shareholder return comparing the Company's shareholder return to the shareholder return of the peer group specified in the award agreement ("RTSR Performance Percentage"), (ii) absolute three-year total shareholder return ("ATSR Appreciation") and (iii) three-year return on average capital employed ("ROACE Percentage"). The RTSR Performance Percentage, ATSR Appreciation and ROACE Percentage will be used to identify the "RTSR Factor," the "ATSR Factor" and the "ROACE Factor," respectively, which are used to compute the "Performance Multiple" and ultimately to determine the final number of shares associated with each performance share unit granted at the maturity date (with all partial shares rounded, as appropriate). In computing the Performance Multiple, the RTSR Factor is given a 25% weight, the ATSR Factor a 25% weight and the ROACE Factor a 50% weight. The $9.22 per unit grant-date fair value consists of a (i) $10.08 per unit grant-date fair value, determined utilizing a Monte Carlo simulation, for the combined (.25) RTSR Factor and (.25) ATSR Factor and (ii) $8.36 per unit grant-date fair value for the (.50) ROACE Factor determined based on the closing price of the Company's common stock on the New York Stock Exchange on February 16, 2018. These awards have a performance period of January 1, 2018 to December 31, 2020.

(2) The performance share awards granted on February 27, 2015 had a performance period of January 1, 2015 to December 31, 2017 and, as their performance criteria were not satisfied, resulted in a TSR modifier of 0% based on the Company finishing in the 36th percentile of its peer group for relative TSR. As such, the units were not converted into the Company's common stock during the first quarter of 2018.

As of September 30, 2018, unrecognized stock-based compensation related to the performance share awards expected to vest was $18.6 million. Such cost is expected to be recognized over a weighted-average period of 1.72 years.

The assumptions used to estimate the combined fair value for the (.25) RTSR Factor and the (.25) ATSR Factor for the market criteria portion of the performance share awards granted on the date presented are as follows:

	February 16, 2018
Risk-free interest rate[(1)]	2.34 %
Dividend yield	— %
Expected volatility[(2)]	65.49 %
Laredo stock closing price on grant date	$8.36
Combined fair value per performance share award for the (.25) RTSR Factor and the (.25) ATSR Factor[(3)]	$10.08

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(1) The risk-free interest rate was derived using a term-matched zero-coupon yield derived from the U.S. Treasury constant maturities yield curve on the grant date.

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

(3)

The market criteria portion of the performance share award represents 50% of each of the amount of stock potentially payable, if any, and the grant-date fair value of the award.

Stock-based compensation expense

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2018	2017	2018	2017
Restricted stock award compensation	$6,001	$5,422	$19,332	$16,856
Stock option award compensation	970	1,159	3,010	3,600
Performance share award compensation	3,689	4,255	12,431	12,063
Total stock-based compensation, gross	10,660	10,836	34,773	32,519
Less amounts capitalized in oil and natural gas properties	(1,927)	(1,870)	(6,025)	(5,642)
Total stock-based compensation, net	$8,733	$8,966	$28,748	$26,877

Note 8—Derivatives

Due to the inherent volatility in oil, NGL and natural gas prices, commodity transportation costs and differences in the prices of oil, NGL and natural gas between where the Company produces and where the Company sells such commodities, the Company engages in derivative transactions, such as puts, swaps, collars, basis swaps and, in the past, call spreads to hedge price risk associated with a portion of the Company's anticipated production. By removing a 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, commodity transportation costs and differences in commodity prices between where the Company produces and where the Company sells its products.

Each put transaction has an established floor price. The Company pays its counterparty a premium, which can be paid at inception or 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 floor price multiplied by the hedged contract volume. When the settlement price is at or above the floor price in an individual month in the contract period, the put option expires with no settlement for that particular month, except with regard to the deferred premium, if any.

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. Depending on the terms, the Company may pay its counterparty a premium, which can be paid at inception or deferred until settlement. When the settlement price is below the price floor established by these collars, the counterparty pays the Company an amount 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. When the settlement price is between the price floor and price ceiling established by these collars in an individual month in the contract period, the collar expires with no settlement paid by either the Company or the counterparty for that particular month, except with regard to the deferred premium, if any.

Each basis swap transaction has an established fixed basis differential corresponding to two floating index prices. Depending on the difference of the two floating index prices in relationship to the fixed basis differential, the Company either receives an amount from its counterparty, or pays an amount to its counterparty, equal to the difference multiplied by the hedged contract volume.

Each call spread transaction has an established short call price and long call price. Depending on the terms, the counterparty may pay a premium to the Company to enter into the transaction. When the settlement price is above the short call price and less than or equal to the long call price, the Company pays its counterparty an amount equal to the difference between the settlement price and the short call price multiplied by the hedged contract volume. When the settlement price is above the long call price, the Company pays the counterparty an amount equal to the difference between the long call price and the short call price multiplied by the hedged contract volume. When the settlement price is at or below the short call price in an individual month in the contract period, the call option expires with no settlement paid by either the Company or the counterparty for that particular month, except with regard to the deferred premium, if any.

Other than the oil basis swaps, the Company's oil derivatives are settled based on the month's average daily NYMEX index price for the first nearby month of the West Texas Intermediate Light Sweet Crude Oil Futures Contract. The oil basis swaps are settled based on either (i) the differential between the Argus Americas Crude West Texas Intermediate ("WTI") index prices for WTI Midland-weighted average for the trade month and WTI Cushing-WTI formula basis for the trade month as compared to the basis swaps' fixed differential price or (ii) the differential between the Argus Americas Crude WTI Houston-weighted average price for the trade month and the WTI Midland-weighted average price for the trade month as compared to the basis swaps' fixed differential price. The Company's NGL derivatives are settled based on the month's average daily OPIS index price for Mont Belvieu Purity Ethane, TET and Non-TET Propane, Non-TET Normal Butane, Non-TET Isobutane and Non-TET Natural Gasoline. Other than the natural gas basis swaps, the Company's natural gas derivatives are settled based on the Inside FERC index price for West Texas WAHA for the calculation period. The natural gas basis swaps are settled based on the differential between the Inside FERC index price for West Texas WAHA for the calculation period and the NYMEX Henry Hub index price for the calculation period as compared to the basis swaps' fixed differential price.

During the nine months ended September 30, 2017, the Company completed a hedge restructuring by early terminating a swap that resulted in a termination amount to the Company of $4.2 million that was settled in full by applying the proceeds to pay the premium on one new collar entered into during the restructuring. The following details the derivative that was terminated:

	Aggregate volumes (Bbl)	Floor price ($/Bbl)	Ceiling price ($/Bbl)	Contract period
Oil swap	1,095,000	$52.12	$52.12	January 2018 - December 2018

The following table summarizes open positions as of September 30, 2018, and represents, as of such date, derivatives in place through December 2021 on annual production volumes:

	Remaining year 2018	Year 2019	Year 2020	Year 2021
Oil:				
Puts:				
Hedged volume (Bbl)	1,367,775	8,030,000	366,000	—
Weighted-average floor price ($/Bbl)	$ 51.93	$ 47.45	$ 45.00	$ —
Swaps:				
Hedged volume (Bbl)	—	657,000	695,400	—
Weighted-average price ($/Bbl)	$ —	$ 53.45	$ 52.18	$ —
Collars:				
Hedged volume (Bbl)	1,030,400	—	1,134,600	912,500
Weighted-average floor price ($/Bbl)	$ 41.43	$ —	$ 45.00	$ 45.00
Weighted-average ceiling price ($/Bbl)	$ 60.00	$ —	$ 76.13	$ 71.00
Totals:				
Total volume hedged with floor price (Bbl)	2,398,175	8,687,000	2,196,000	912,500
Weighted-average floor price ($/Bbl)	$ 47.42	$ 47.91	$ 47.27	$ 45.00
Total volume hedged with ceiling price (Bbl)	1,030,400	657,000	1,830,000	912,500
Weighted-average ceiling price ($/Bbl)	$ 60.00	$ 53.45	$ 67.03	$ 71.00
Basis Swaps:				
WTI Midland to WTI Cushing:				
Hedged volume (Bbl)	920,000	552,000	—	—
Weighted-average price ($/Bbl)	$ (0.56)	$ (4.37)	$ —	$ —
WTI Houston to WTI Midland:				
Hedged volume (Bbl)	920,000	1,810,000	—	—
Weighted-average price ($/Bbl)	$ 7.30	$ 7.30	$ —	$ —
NGL:				
Swaps - Purity Ethane:				
Hedged volume (Bbl)	156,400	—	—	—
Weighted-average price ($/Bbl)	$ 11.66	$ —	$ —	$ —
Swaps - Non-TET Propane:				
Hedged volume (Bbl)	128,800	—	—	—
Weighted-average price ($/Bbl)	$ 33.92	$ —	$ —	$ —
Swaps - Non-TET Normal Butane:				
Hedged volume (Bbl)	46,000	—	—	—
Weighted-average price ($/Bbl)	$ 38.22	$ —	$ —	$ —
Swaps - Non-TET Isobutane:				
Hedged volume (Bbl)	18,400	—	—	—
Weighted-average price ($/Bbl)	$ 38.33	$ —	$ —	$ —
Swaps - Non-TET Natural Gasoline:				
Hedged volume (Bbl)	46,000	—	—	—
Weighted-average price ($/Bbl)	$ 57.02	$ —	$ —	$ —
Total NGL volume hedged (Bbl)	395,600	—	—	—

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	Remaining year 2018	Year 2019	Year 2020	Year 2021
Natural gas:				
Puts:				
Hedged volume (MMBtu)	2,055,000	—	—	—
Weighted-average floor price ($/MMBtu)	$ 2.50	$ —	$ —	$ —
Collars:				
Hedged volume (MMBtu)	3,928,400	—	—	—
Weighted-average floor price ($/MMBtu)	$ 2.50	$ —	$ —	$ —
Weighted-average ceiling price ($/MMBtu)	$ 3.35	$ —	$ —	$ —
Totals:				
Total volume hedged with floor price (MMBtu)	5,983,400	—	—	—
Weighted-average floor price ($/MMBtu)	$ 2.50	$ —	$ —	$ —
Total volume hedged with ceiling price (MMBtu)	3,928,400	—	—	—
Weighted-average ceiling price ($/MMBtu)	$ 3.35	$ —	$ —	$ —
Basis Swaps:				
Hedged volume (MMBtu)	2,300,000	20,075,000	25,254,000	—
Weighted-average price ($/MMBtu)	$ (0.62)	$ (1.05)	$ (0.76)	$ —

At each period end, the Company nets the fair value of derivatives by counterparty where the right of offset exists and reports this net basis on the "Derivatives" line items on the unaudited consolidated balance sheets as assets and/or liabilities. See Note 9.a for a summary of the fair value of derivatives on a gross basis. The Company's derivatives were not designated as hedges for accounting purposes. Accordingly, the changes in fair value are recognized in the unaudited consolidated statements of operations in the "Gain (loss) on derivatives, net" line item. Gains and losses on derivatives are included in cash flows from operating activities.

Note 9—Fair value measurements

See Note 10 "Fair value measurements" in the 2017 Annual Report for discussion on the Company's accounting policies for fair value measurements.

a. Fair value measurement on a recurring basis

The following tables summarize the Company's derivatives' fair value hierarchy by commodity and current and noncurrent assets and liabilities on a gross basis and the net presentation included in the "Derivatives" line items on the unaudited consolidated balance sheets as of the dates 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 September 30, 2018:						
Assets:						
Current:						
Oil derivatives	$ —	$10,390	$—	$10,390	$(10,390)	$ —
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	13,002	—	13,002	(9,309)	3,693
Oil derivative deferred premiums	—	—	—	—	—	—
Natural gas derivative deferred premiums	—	—	—	—	(619)	(619)
Noncurrent:						
Oil derivatives	$ —	$2,056	$—	$2,056	$(2,056)	$ —
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	474	—	474	(474)	—
Oil derivative deferred premiums	—	—	—	—	—	—
Natural gas derivative deferred premiums	—	—	—	—	—	—
Liabilities:						
Current:						
Oil derivatives	$ —	$(41,692)	$—	$(41,692)	$10,390	$ (31,302)
NGL derivatives	—	(4,807)	—	(4,807)	—	(4,807)
Natural gas derivatives	—	233	—	233	9,309	9,542
Oil derivative deferred premiums	—	—	(17,265)	(17,265)	—	(17,265)
Natural gas derivative deferred premiums	—	—	(847)	(847)	619	(228)
Noncurrent:						
Oil derivatives	$ —	$(17,279)	$—	$(17,279)	$2,056	$ (15,223)
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	(2,468)	—	(2,468)	474	(1,994)
Oil derivative deferred premiums	—	—	(3,728)	(3,728)	—	(3,728)
Natural gas derivative deferred premiums	—	—	—	—	—	—
Net derivative liability positions	$ —	$(40,091)	$(21,840)	$(61,931)	$—	$ (61,931)

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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, 2017:						
Assets:						
Current:						
Oil derivatives	$ —	$7,427	$—	$7,427	$(3,721)	$ 3,706
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	10,546	—	10,546	(4,817)	5,729
Oil derivative deferred premiums	—	—	—	—	(87)	(87)
Natural gas derivative deferred premiums	—	—	—	—	(2,456)	(2,456)
Noncurrent:						
Oil derivatives	$ —	$11,613	$—	$11,613	$(6,087)	$ 5,526
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	934	—	934	(934)	—
Oil derivative deferred premiums	—	—	—	—	(2,113)	(2,113)
Natural gas derivative deferred premiums	—	—	—	—	—	—
Liabilities:						
Current:						
Oil derivatives	$ —	$(12,477)	$—	$(12,477)	$3,721	$ (8,756)
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	—	—	—	4,817	4,817
Oil derivative deferred premiums	—	—	(18,202)	(18,202)	87	(18,115)
Natural gas derivative deferred premiums	—	—	(3,352)	(3,352)	2,456	(896)
Noncurrent:						
Oil derivatives	$ —	$(2,389)	$—	$(2,389)	$6,087	$ 3,698
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	—	—	—	934	934
Oil derivative deferred premiums	—	—	(7,129)	(7,129)	2,113	(5,016)
Natural gas derivative deferred premiums	—	—	—	—	—	—
Net derivative asset (liability) positions	$ —	$15,654	$(28,683)	$(13,029)	$—	$ (13,029)

Significant Level 2 inputs associated with the calculation of discounted cash flows used in the fair value mark-to-market analysis of derivatives include each derivative contract's corresponding commodity index price(s), appropriate risk-adjusted discount rates and forward price curve models for substantially similar instruments generated from a compilation of data gathered from third parties.

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 and then records the change in net present value to interest expense over the period from the trade date 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. The deferred premiums are included in the "Derivatives" line items on the unaudited consolidated balance sheets, and as of September 30, 2018, their input rates range from 1.91% to 3.32% with a net fair value weighted-average rate of 2.78%.

The following table presents payments required for derivative deferred premiums as of September 30, 2018 for the periods presented:

(in thousands)	September 30, 2018
Remaining 2018	$ 5,405
2019	15,502
2020	1,295
Total	$ 22,202

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2018	2017	2018	2017
Balance of Level 3 at beginning of period	$(25,026)	$(12,554)	$(28,683)	$(8,998)
Change in net present value of derivative deferred premiums[(1)]	(168)	(88)	(564)	(199)
Total purchases and settlements of derivative deferred premiums:				
Purchases	(2,101)	(15,996)	(7,523)	(22,994)
Settlements	5,455	1,448	14,930	5,001
Balance of Level 3 at end of period	$(21,840)	$(27,190)	$(21,840)	$(27,190)

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(1) These amounts are included in the "Interest expense" line item in the unaudited consolidated statements of operations.

b. Fair value measurement on a nonrecurring basis

See Note 10.b "Fair value measurement on a nonrecurring basis" and Note 4.c "2016 acquisitions of evaluated and unevaluated oil and natural gas properties" in the 2017 Annual Report for the Company's accounting policies and assumptions in estimating the fair values of assets acquired and liabilities assumed for acquisitions of evaluated and unevaluated oil and natural gas properties. See Note 3.a for additional discussion of the Company's acquisitions of evaluated and unevaluated oil and natural gas properties for the nine months ended September 30, 2018.

c. Items not accounted for at fair value

The carrying amounts reported in the unaudited consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued capital expenditures, undistributed revenue and royalties and other accrued assets and liabilities approximate their fair values.

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

September 30, 2018	December 31, 2017