

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

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 September 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 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, 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 No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

Number of shares of registrant's common stock outstanding as of November 1, 2018: 233,882,020

LAREDO PETROLEUM, INC.
TABLE OF CONTENTS

	Page
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	<u>iii</u>
<u>Part I</u>	<u>1</u>
<u>Item 1. Consolidated Financial Statements (Unaudited)</u>	<u>1</u>
<u>Consolidated balance sheets as of September 30, 2018 and December 31, 2017</u>	<u>1</u>
<u>Consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017</u>	<u>2</u>
<u>Consolidated statement of stockholders' equity for the nine months ended September 30, 2018</u>	<u>3</u>
<u>Consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Condensed notes to the consolidated financial statements:</u>	<u>5</u>
<u>Note 1—Organization and basis of presentation</u>	<u>5</u>
<u>Note 2—Recently issued or adopted accounting pronouncements</u>	<u>5</u>
<u>Note 3—Acquisitions and divestitures</u>	<u>7</u>
<u>Note 4—Revenue recognition</u>	<u>8</u>
<u>Note 5—Property and equipment</u>	<u>11</u>
<u>Note 6—Debt</u>	<u>12</u>
<u>Note 7—Stockholders' equity and stock-based compensation</u>	<u>14</u>
<u>Note 8—Derivatives</u>	<u>17</u>
<u>Note 9—Fair value measurements</u>	<u>21</u>
<u>Note 10—Net income per common share</u>	<u>24</u>
<u>Note 11—Commitments and contingencies</u>	<u>24</u>
<u>Note 12—Supplemental cash flow information</u>	<u>26</u>
<u>Note 13—Asset retirement obligations</u>	<u>27</u>
<u>Note 14—Income taxes</u>	<u>27</u>
<u>Note 15—Subsidiary guarantors</u>	<u>27</u>
<u>Note 16—Subsequent events</u>	<u>30</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>47</u>
<u>Part II</u>	<u>48</u>
<u>Item 1. Legal Proceedings</u>	<u>48</u>
<u>Item 1A. Risk Factors</u>	<u>48</u>
<u>Item 2. Purchases of Equity Securities</u>	<u>49</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>49</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>49</u>
<u>Item 5. Other Information</u>	<u>49</u>
<u>Item 6. Exhibits</u>	<u>50</u>
<u>SIGNATURES</u>	<u>51</u>

Table of Contents

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;

Table of Contents

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.

Table of Contents

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

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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.

1

Table of Contents

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.

Table of Contents

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.

Table of Contents

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)

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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.

4

Table of Contents Laredo Petroleum, Inc.

Condensed notes to the consolidated financial statements
(Unaudited)

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