

Laredo Petroleum, Inc.
Form 10-Q
November 06, 2014

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, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 001-35380

Laredo Petroleum, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

15 W. Sixth Street, Suite 900

Tulsa, Oklahoma

(Address of Principal Executive Offices)

(918) 513-4570

(Registrant's Telephone Number, Including Area Code)

45-3007926

(I.R.S. Employer
Identification No.)

74119

(Zip code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of shares of registrant's common stock outstanding as of November 3, 2014: 143,685,200

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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. 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:

- volatility of oil and natural gas prices;
- changes in domestic and global demand for oil and natural gas;
- the continuation of restrictions on the export of domestic oil and its potential to cause weakness in domestic pricing;
- the possible introduction of 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;
- the ongoing instability and uncertainty in the U.S. and international financial and consumer markets that could adversely affect the liquidity available to us and our customers and could adversely affect the demand for commodities, including oil and natural gas;
- the possible introduction of regulations that prohibit or restrict our ability to drill new allocation wells;
- discovery, estimation, development and replacement of oil and natural gas reserves, including our expectations that estimates of our proved reserves will increase;
- uncertainties about the estimates of our oil and natural gas reserves;
- competition in the oil and natural gas industry;
- the availability and costs of drilling and production equipment, labor, and oil and natural gas processing and other services;
- drilling and operating risks, including risks related to hydraulic fracturing activities;
- risks related to the geographic concentration of our assets;
- the availability of sufficient pipeline and transportation facilities and gathering and processing capacity;
- changes in the regulatory environment or changes in international, legal, political, administrative or economic conditions;
- our ability to comply with federal, state and local regulatory requirements;
- our ability to execute our strategies, including but not limited to our hedging strategies;
- our ability to recruit and retain the qualified personnel necessary to operate our business;
- evolving industry standards and adverse changes in global economic, political and other conditions;
- restrictions contained in our debt agreements, including our Senior Secured Credit Facility (as defined below) and the indentures governing our senior unsecured notes, as well as debt that could be incurred in the future;
- our ability to access additional borrowing capacity under our Senior Secured Credit Facility or other means of providing liquidity; and
- our ability to generate sufficient cash to service our indebtedness and to generate future profits.

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", "Part II, Item 1A. Risk Factors" 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, 2013 (the "2013 Annual Report"), and those set forth from time to time in our other filings with the Securities and Exchange Commission (the "SEC"). These documents are available through our website or through the SEC's Electronic Data Gathering and Analysis Retrieval system at <http://www.sec.gov>. In light of such risks and uncertainties, we caution you not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report, or if earlier, as of the date they were made. We do not intend to, and disclaim any obligation to, update or revise any forward-looking statements unless required by securities law.

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PART I

Item 1. Consolidated Financial Statements (Unaudited)

Laredo Petroleum, Inc.

Consolidated balance sheets

(in thousands, except share data)

(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$55,760	\$198,153
Accounts receivable, net	103,767	77,318
Derivatives	11,520	15,806
Deferred income taxes	1,255	3,634
Other current assets	18,159	12,698
Total current assets	190,461	307,609
Property and equipment:		
Oil and natural gas properties, full cost method:		
Proved properties	4,021,449	3,276,578
Unproved properties not being amortized	427,132	208,085
Midstream service assets	102,758	51,704
Other fixed assets	43,834	32,832
Total property and equipment	4,595,173	3,569,199
Less accumulated depletion, depreciation, amortization and impairment	(1,530,322)	(1,364,875)
Net property and equipment	3,064,851	2,204,324
Derivatives	5,327	79,726
Deferred loan costs, net	29,777	25,933
Investment in equity method investee	40,810	5,913
Other assets, net	1,683	255
Total assets	\$3,332,909	\$2,623,760
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$55,458	\$16,002
Accrued payable - affiliates	2,670	3,489
Undistributed revenue and royalties	49,229	35,124
Accrued capital expenditures	140,273	116,328
Derivatives	4,454	10,795
Other current liabilities	66,090	72,231
Total current liabilities	318,174	253,969
Long-term debt	1,576,358	1,051,538
Derivatives	1,695	2,680
Deferred income taxes	49,425	16,293
Asset retirement obligations	26,432	21,478
Other noncurrent liabilities	6,130	5,546
Total liabilities	1,978,214	1,351,504
Commitments and contingencies		
Stockholders' equity:		

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Preferred stock, \$0.01 par value, 50,000,000 shares authorized and zero issued at September 30, 2014 and December 31, 2013	—	—
Common stock, \$0.01 par value, 450,000,000 shares authorized, and 143,714,899 and 142,671,436 issued, at September 30, 2014 and December 31, 2013, respectively	1,437	1,427
Additional paid-in capital	1,301,943	1,283,809
Retained earnings (accumulated deficit)	51,315	(12,980)
Total stockholders' equity	1,354,695	1,272,256
Total liabilities and stockholders' equity	\$3,332,909	\$2,623,760

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,	
	2014	2013	2014	2013
Revenues:				
Oil and natural gas sales	\$199,490	\$170,840	\$555,576	\$511,513
Midstream service revenue	751	—	1,019	328
Total revenues	200,241	170,840	556,595	511,841
Costs and expenses:				
Lease operating expenses	25,165	19,565	67,129	64,192
Midstream service expense	1,225	1,090	3,596	2,569
Production and ad valorem taxes	12,550	11,723	38,160	32,890
Natural gas volume commitment - affiliates	675	305	1,779	444
General and administrative	27,078	24,405	84,284	64,534
Accretion of asset retirement obligations	442	350	1,279	1,154
Depletion, depreciation and amortization	63,942	55,982	166,605	186,719
Total costs and expenses	131,077	113,420	362,832	352,502
Operating income	69,164	57,420	193,763	159,339
Non-operating income (expense):				
Gain (loss) on derivatives:				
Commodity derivatives, net	92,790	(9,830)	(1,447)	(2,709)
Interest rate derivatives, net	—	(8)	—	(23)
Income (loss) from equity method investee	(61)	48	(86)	(65)
Interest expense	(30,549)	(24,929)	(90,192)	(76,221)
Interest and other income	33	59	310	86
Write-off of deferred loan costs	—	(1,502)	(124)	(1,502)
Gain (loss) on disposal of assets, net	(2,192)	607	(2,418)	548
Non-operating income (expense), net	60,021	(35,555)	(93,957)	(79,886)
Income from continuing operations before income taxes	129,185	21,865	99,806	79,453
Income tax expense:				
Deferred	(45,778)	(10,048)	(35,511)	(31,205)
Total income tax expense	(45,778)	(10,048)	(35,511)	(31,205)
Income from continuing operations	83,407	11,817	64,295	48,248
Income from discontinued operations, net of tax	—	726	—	1,516
Net income	\$83,407	\$12,543	\$64,295	\$49,764
Net income per common share:				
Basic:				
Income from continuing operations	\$0.59	\$0.09	\$0.46	\$0.37
Income from discontinued operations, net of tax	—	—	—	0.01
Net income per share	\$0.59	\$0.09	\$0.46	\$0.38
Diluted:				
Income from continuing operations	\$0.58	\$0.09	\$0.45	\$0.37
Income from discontinued operations, net of tax	—	—	—	0.01
Net income per share	\$0.58	\$0.09	\$0.45	\$0.38
Weighted-average common shares outstanding:				
Basic	141,413	134,461	141,261	129,701

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Diluted	143,813	136,460	143,583	131,589
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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)		Retained earnings (accumulated deficit)	Total
	Shares	Amount		Shares	Amount		
Balance, December 31, 2013	142,671	\$1,427	\$1,283,809	—	\$—	\$ (12,980)	\$1,272,256
Restricted stock awards	1,209	12	(12)	—	—	—	—
Restricted stock forfeitures	(105)	(1)	1	—	—	—	—
Vested restricted stock exchanged for tax withholding	—	—	—	155	(4,075)	—	(4,075)
Retirement of treasury stock	(155)	(2)	(4,073)	(155)	4,075	—	—
Exercise of employee stock options	95	1	1,884	—	—	—	1,885
Stock-based compensation	—	—	20,334	—	—	—	20,334
Net income	—	—	—	—	—	64,295	64,295
Balance, September 30, 2014	143,715	\$1,437	\$1,301,943	—	\$—	\$ 51,315	\$1,354,695

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

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

Nine months ended September
30,
2014 2013

Cash flows from operating activities:
Net income