Laredo Petroleum, Inc.
Form 10-Q
November 05, 2015

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, 2015
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 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 ý No o

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 ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 2, 2015: 213,804,059

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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;
- revisions to our reserve estimates as a result of changes in commodity prices;
- impacts to our financial statements as a result of impairment write-downs;
- changes in domestic and global production, supply and demand for oil, NGL and natural gas;
- the continuation of restrictions on the export of domestic oil production and its potential to cause weakness in domestic pricing;
- our ability to discover, estimate, develop and replace oil, NGL and natural gas reserves;
- uncertainties about the estimates of our oil, NGL and natural gas reserves;
- the potentially insufficient refining capacity in the U.S. Gulf Coast to refine all of the light sweet crude oil being produced in the U.S., which, coupled with the export limitations noted above and a continuing increase in light sweet crude oil production, could result in widening price discounts to world oil prices and potential shut-in of production due to lack of sufficient markets;
- 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 the demand for commodities, including oil, NGL and natural gas;
- capital requirements for our operations and projects;
- our ability to maintain the borrowing capacity under our Senior Secured Credit Facility (as defined below) or access other means of obtaining capital and liquidity;
- our ability to generate sufficient cash to service our indebtedness, fund our capital requirements and generate future profits;
- regulations that prohibit or restrict our ability to apply hydraulic fracturing to our oil and natural gas wells and to access and dispose of water used in these operations;
- legislation or regulations that prohibit or restrict our ability to drill new allocation wells;
- our ability to execute our strategies, including but not limited to our hedging strategies;
- competition in the oil and natural gas industry;
- changes in the regulatory environment and changes in international, legal, political, administrative or economic conditions;
- drilling and operating risks, including risks related to hydraulic fracturing activities;
- risks related to the geographic concentration of our assets;
- the availability and costs of drilling and production equipment, labor and oil and natural gas processing and other services;
- the availability of sufficient pipeline and transportation facilities and gathering and processing capacity;
- our ability to comply with federal, state and local regulatory requirements;

- 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, and;
- our ability to recruit and retain the qualified personnel necessary to operate our business.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various factors, including those set forth under "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part II, Item 1A. Risk Factors" and elsewhere in this Quarterly Report, under "Part II, Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, 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, 2014 (the "2014 Annual Report"), and those set forth from time to time in our other filings with the Securities and Exchange Commission (the "SEC"). These documents are available through our website or through the SEC's Electronic Data Gathering and Analysis Retrieval system at http://www.sec.gov. In light of such risks and uncertainties, we caution you not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report, or if earlier, as of the date they were made. We do not intend to, and disclaim any obligation to, update or revise any forward-looking statements unless required by securities law.

PART I

Item 1. Consolidated Financial Statements (Unaudited)

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

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$76,403	$29,321
Accounts receivable, net	100,675	126,929
Derivatives	184,157	194,601
Other current assets	14,207	14,402
Total current assets	375,442	365,253
Property and equipment:		
Oil and natural gas properties, full cost method:		
Evaluated properties	4,895,042	4,446,781
Unevaluated properties not being amortized	225,045	342,731
Midstream service assets	149,068	117,052
Other fixed assets	62,114	56,165
Total property and equipment	5,331,269	4,962,729
Less accumulated depletion, depreciation, amortization and impairment	(3,212,194)	(1,608,647)
Net property and equipment	2,119,075	3,354,082
Deferred income taxes	68,069	—
Derivatives	97,850	117,788
Investment in equity method investee	160,206	58,288
Other assets, net	11,853	15,290
Total assets	$2,832,495	$3,910,701
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$23,647	$39,008
Undistributed revenue and royalties	38,346	65,438
Accrued capital expenditures	49,283	148,241
Deferred income taxes	68,069	71,191
Derivatives	—	115
Other current liabilities	112,204	101,032
Total current liabilities	291,549	425,025
Long-term debt, net	1,415,566	1,779,447
Deferred income taxes	—	105,754
Asset retirement obligations	32,557	31,042
Other noncurrent liabilities	4,141	6,232
Total liabilities	1,743,813	2,347,500
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized and zero issued as of September 30, 2015 and December 31, 2014	—	—

Common stock, $0.01 par value, 450,000,000 shares authorized, and 213,839,893 and 143,686,491 issued, as of September 30, 2015 and December 31, 2014, respectively	2,138	1,437
Additional paid-in capital	2,079,240	1,309,171
(Accumulated deficit) retained earnings	(992,696)	252,593
Total stockholders' equity	1,088,682	1,563,201
Total liabilities and stockholders' equity	$2,832,495	$3,910,701

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,	
	2015	2014	2015	2014
Revenues:				
Oil, NGL and natural gas sales	$104,607	$199,490	$348,279	$555,576
Midstream service revenues	1,873	751	4,908	1,019
Sales of purchased oil	43,860	—	130,178	—
Total revenues	150,340	200,241	483,365	556,595
Costs and expenses:				
Lease operating expenses	25,112	25,165	86,698	67,129
Production and ad valorem taxes	7,895	12,550	26,481	38,160
Midstream service expenses	1,092	1,225	4,263	3,596
Minimum volume commitments	—	675	5,235	1,779
Costs of purchased oil	46,961	—	132,578	—
General and administrative	22,913	27,078	67,976	84,284
Restructuring expenses	—	—	6,042	—
Accretion of asset retirement obligations	599	442	1,771	1,279
Depletion, depreciation and amortization	66,777	63,942	210,831	166,605
Impairment expense	906,850	—	1,397,327	—
Total costs and expenses	1,078,199	131,077	1,939,202	362,832
Operating income (loss)	(927,859)	69,164	(1,455,837)	193,763
Non-operating income (expense):				
Gain (loss) on derivatives, net	142,580	92,790	141,836	(1,447)
Income (loss) from equity method investee	2,104	(61)	4,585	(86)
Interest expense	(23,348)	(30,549)	(79,732)	(90,192)
Interest and other income	92	33	388	310
Loss on early redemption of debt	—	—	(31,537)	—
Write-off of debt issuance costs	—	—	—	(124)
Loss on disposal of assets, net	(94)	(2,192)	(1,937)	(2,418)
Non-operating income (expense), net	121,334	60,021	33,603	(93,957)
Income (loss) before income taxes	(806,525)	129,185	(1,422,234)	99,806
Income tax (expense) benefit:				
Deferred	(41,258)	(45,778)	176,945	(35,511)
Total income tax (expense) benefit	(41,258)	(45,778)	176,945	(35,511)
Net income (loss)	$(847,783)	$83,407	$(1,245,289)	$64,295
Net income (loss) per common share:				
Basic	$(4.01)	$0.59	$(6.38)	$0.46
Diluted	$(4.01)	$0.58	$(6.38)	$0.45
Weighted-average common shares outstanding:				
Basic	211,204	141,413	195,081	141,261
Diluted	211,204	143,813	195,081	143,583

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

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

	Common Stock		Additional paid-in capital	Treasury Stock (at cost)		Retained earnings (accumulated deficit)	Total
	Shares	Amount		Shares	Amount		
Balance, December 31, 2014	143,686	$1,437	$1,309,171	—	$—	$ 252,593	$1,563,201
Restricted stock awards	1,894	18	(18)	—	—	—	—
Restricted stock forfeitures	(519)	(5)	5	—	—	—	—
Vested restricted stock exchanged for tax withholding	—	—	—	221	(2,749)	—	(2,749)
Retirement of treasury stock	(221)	(2)	(2,747)	(221)	2,749	—	—
Equity issuance, net of offering costs	69,000	690	753,473	—	—	—	754,163
Stock-based compensation	—	—	19,356	—	—	—	19,356
Net loss	—	—	—	—	—	(1,245,289)	(1,245,289)
Balance, September 30, 2015	213,840	$2,138	$2,079,240	—	$—	$ (992,696)	$1,088,682

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,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	$(1,245,289)	$64,295
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income tax (benefit) expense	(176,945)	35,511
Depletion, depreciation and amortization	210,831	166,605
Impairment expense	1,397,327	—
Loss on early redemption of debt	31,537	—
Bad debt expense	107	—
Non-cash stock-based compensation, net of amounts capitalized	17,933	16,919
Mark-to-market on derivatives:		
(Gain) loss on derivatives, net	(141,836)	1,447
Cash settlements received (paid) for matured derivatives, net	175,879	(1,320)
Cash settlements received for early terminations of derivatives, net	—	76,660
Change in net present value of deferred premiums paid for derivatives	141	170
Cash premiums paid for derivatives	(3,918)	(5,599)
Amortization of debt issuance costs	3,612	3,823
Cash settlement of performance unit awards	(2,738)	—
Other, net	(876)	4,137
Decrease (increase) in accounts receivable	26,147	(26,449)
Increase in other assets	(1,234)	(8,656)
(Decrease) increase in accounts payable	(15,361)	39,456
(Decrease) increase in undistributed revenues and royalties	(27,092)	14,105
Decrease in other accrued liabilities	(25,676)	(7,908)
Increase in other noncurrent liabilities	221	2,373
Increase in fair value of performance unit awards	2,734	767
Net cash provided by operating activities	225,504	376,336
Cash flows from investing activities:		
Capital expenditures:		
Acquisition of oil and natural gas properties	—	(6,493)
Acquisition of mineral interests	—	(7,305)
Oil and natural gas properties	(490,351)	(925,121)
Midstream service assets	(35,237)	(45,263)
Other fixed assets	(8,539)	(13,612)
Investment in equity method investee	(63,011)	(37,581)
Proceeds from dispositions of capital assets, net of costs	65,261	1,627
Net cash used in investing activities	(531,877)	(1,033,748)
Cash flows from financing activities:		
Borrowings on Senior Secured Credit Facility	310,000	75,000
Payments on Senior Secured Credit Facility	(475,000)	—
Issuance of March 2023 Notes	350,000	—
Issuance of January 2022 Notes	—	450,000
Redemption of January 2019 Notes	(576,200)	—

Proceeds from issuance of common stock, net of offering costs	754,163	—
Purchase of treasury stock	(2,749)	(4,075)
Proceeds from exercise of employee stock options	—	1,885
Payments for debt issuance costs	(6,759)	(7,791)
Net cash provided by financing activities	353,455	515,019
Net increase (decrease) in cash and cash equivalents	47,082	(142,393)
Cash and cash equivalents, beginning of period	29,321	198,153
Cash and cash equivalents, end of period	$76,403	$55,760

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

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

Note 1—Organization

Laredo Petroleum, Inc. ("Laredo"), together with its subsidiaries, Laredo Midstream Services, LLC ("LMS") and Garden City Minerals, LLC ("GCM"), is an independent energy company focused on the acquisition, exploration and development of oil and natural gas properties primarily in the Permian Basin in West Texas. LMS and GCM (together, the "Guarantors") guarantee all of Laredo's debt instruments.

In these notes, the "Company," (i) when used in the present tense, prospectively or from October 24, 2014, refers to Laredo, LMS and GCM collectively, unless the context indicates otherwise or (ii) when used for historical periods from December 31, 2013 to October 23, 2014, refers to Laredo and LMS collectively, unless the context indicates otherwise. All amounts, dollars and percentages presented in these unaudited consolidated financial statements and the related notes are rounded and therefore approximate.

The Company operates in two business segments, which are (i) exploration and production and (ii) midstream and marketing. The exploration and production segment is engaged in the acquisition, exploration and development of oil and natural gas properties primarily in the Permian Basin in West Texas. The midstream and marketing segment provides Laredo's exploration and production segment and certain third parties with (i) any products and services that need to be delivered by midstream infrastructure, including oil and natural gas gathering services as well as rig fuel, natural gas lift and water in Laredo's primary drilling corridors and (ii) takeaway optionality in the field and firm service commitments to maximize Laredo's oil, NGL and natural gas revenues.

Note 2—Basis of presentation and significant accounting policies

a. Basis of presentation

The accompanying unaudited consolidated financial statements were derived from the historical accounting records of the Company and reflect the historical financial position, results of operations and cash flows for the periods described herein. The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All material intercompany transactions and account balances have been eliminated in the consolidation of accounts. The Company uses the equity method of accounting to record its net interests when the Company holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence but does not control the entity. Under the equity method, the Company's proportionate share of the investee's net income (loss) is included in the unaudited consolidated statements of operations. See Note 14 for additional discussion of the Company's equity method investment.

The accompanying consolidated financial statements have not been audited by the Company's independent registered public accounting firm, except that the consolidated balance sheet as of December 31, 2014 is derived from audited consolidated financial statements. See Notes 2.g, 5.g and 18 for discussion regarding the Company's early-adoption of new accounting guidance regarding the presentation of debt issuance costs. 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, 2015, results of operations for the three and nine months ended September 30, 2015 and 2014 and cash flows for the nine months ended September 30, 2015 and 2014.

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 2014 Annual Report.

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

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

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

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

As fair value is a market-based measurement, it is determined based on the assumptions that market participants would use. These estimates and assumptions are based on management's best judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets and volatile equity and energy markets have combined to increase the uncertainty inherent in such estimates and assumptions. Management believes its estimates and assumptions to be reasonable under the circumstances. As future events and their effects cannot be determined with precision, actual values and results could differ from these estimates. Any changes in estimates resulting from future changes in the economic environment will be reflected in the financial statements in future periods.

c. Reclassifications

Certain amounts in the accompanying unaudited consolidated financial statements have been reclassified to conform to the 2015 presentation. These reclassifications had no impact to previously reported net income or loss, stockholders' equity or cash flows.

d. Accounts receivable

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

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

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

(in thousands)	September 30, 2015	December 31, 2014
Oil, NGL and natural gas sales	$34,512	$57,070
Joint operations, net[1]	25,553	33,808
Matured derivatives	21,729	16,098
Purchased oil and other product sales	14,436	18,917
Other	4,445	1,036
Total	$100,675	$126,929

(1) Accounts receivable for joint operations are presented net of an allowance for doubtful accounts of $0.2 million and $0.8 million as of September 30, 2015 and December 31, 2014, respectively.

e. Derivatives

The Company uses derivatives to reduce exposure to fluctuations in the prices of oil and natural gas. By removing a significant portion of the price volatility associated with future production, the Company expects to mitigate, but not eliminate, the potential effects of variability in cash flows from operations due to fluctuations in commodity prices. These transactions are in the form of collars, swaps, puts and basis swaps.

Derivatives are recorded at fair value and are presented net on the unaudited consolidated balance sheets as assets or liabilities. The Company nets the fair value of derivatives by counterparty where the right of offset exists. The

Company determines the fair value of its derivatives by utilizing pricing models for substantially similar instruments. Inputs to the pricing models include publicly available prices and forward price curves generated from a compilation of data gathered from third parties (see Notes 8 and 9).

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

The Company's derivatives were not designated as hedges for accounting purposes for any of the periods presented. Accordingly, the changes in fair value are recognized in the unaudited consolidated statements of operations in the period of change. Gains and losses on derivatives are included in cash flows from operating activities (see Note 8).

f. Property and equipment

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

(in thousands)	September 30, 2015	December 31, 2014
Evaluated oil and natural gas properties	$4,895,042	$4,446,781
Less accumulated depletion and impairment	(3,180,822)	(1,586,237)
Evaluated oil and natural gas properties, net	1,714,220	2,860,544
Unevaluated properties not being amortized	225,045	342,731
Midstream service assets	149,068	117,052
Less accumulated depreciation	(14,057)	(8,590)
Midstream service assets, net	135,011	108,462
Depreciable other fixed assets	47,220	42,933
Less accumulated depreciation and amortization	(17,315)	(13,820)
Depreciable other fixed assets, net	29,905	29,113
Land	14,894	13,232
Total property and equipment, net	$2,119,075	$3,354,082

For the three months ended September 30, 2015 and 2014, depletion expense was $15.32 per barrel of oil equivalent ("BOE") sold and $20.25 per BOE sold, respectively. For the nine months ended September 30, 2015 and 2014, depletion expense was $15.87 per BOE sold and $19.83 per BOE sold, respectively.

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

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

The full cost ceiling is based principally on the estimated future net cash flows from proved oil and natural gas properties discounted at 10%. Full cost companies are required to use the unweighted arithmetic average first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period ("SEC Prices"), unless prices were defined by contractual arrangements, to calculate the discounted future revenues. In the event the unamortized cost of evaluated

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

The full cost ceiling value of the Company's reserves was calculated based on SEC Prices as of September 30, 2015, which do not include derivative transactions, of (i) $55.73 per barrel for oil, (ii) $21.87 per barrel for NGL and (iii) $2.89 per MMBtu for natural gas, adjusted by area for energy content, transportation fees and regional price differentials. Using these SEC Prices, the Company's net book value of evaluated oil and natural gas properties exceeded the full cost ceiling amount as of September 30, 2015. As a result, the Company recorded a third-quarter non-cash full cost ceiling impairment of $906.4 million.

As of June 30, 2015, the full cost ceiling value of the Company's reserves was calculated based on SEC Prices as of June 30, 2015, which did not include derivative transactions, of (i) $68.17 per barrel for oil, (ii) $26.73 per barrel for NGL and (iii) $3.22 per MMBtu for natural gas, adjusted by area for energy content, transportation fees, and regional price differentials. Using these SEC Prices, the Company's net book value of evaluated oil and natural gas properties exceeded the full cost ceiling amount as of June 30, 2015. As a result, the Company recorded a second-quarter non-cash full cost ceiling impairment of $488.0 million.

Full cost ceiling impairment expense for the three and nine months ended September 30, 2015 in the unaudited consolidated statements of operations was $906.4 million and $1.39 billion, respectively. The Company's net book value of evaluated oil and natural gas properties did not exceed the full cost ceiling amount at March 31, 2014, June 30, 2014 or September 30, 2014. The amounts are included in "Impairment expense" in the unaudited consolidated statements of operations and in "Other operating costs and expenses" for the Company's exploration and production segment presented in Note 16.

g. Debt issuance costs

Debt issuance fees, which are recorded at cost, net of amortization, are amortized over the life of the respective debt agreements utilizing the effective interest and straight-line methods. The Company capitalized $6.8 million of debt issuance costs during the nine months ended September 30, 2015 mainly as a result of the issuance of the March 2023 Notes (as defined below). The Company capitalized $7.8 million of debt issuance costs during the nine months ended September 30, 2014 mainly as a result of the issuance of the January 2022 Notes (as defined below). The Company had total debt issuance costs of $25.0 million and $28.5 million, net of accumulated amortization of $15.9 million and $19.4 million, as of September 30, 2015 and December 31, 2014, respectively.

The Company wrote-off approximately $6.6 million of debt issuance costs during the nine months ended September 30, 2015 as a result of the early redemption of the January 2019 Notes (as defined below), which are included in the unaudited consolidated statements of operations in the "Loss on early redemption of debt" line item. During the nine months ended September 30, 2014, the Company wrote-off approximately $0.1 million of debt issuance costs as a result of changes in the borrowing base of the Senior Secured Credit Facility (as defined below) due to the issuance of the January 2022 Notes, which are included in the unaudited consolidated statements of operations in the "Write-off of debt issuance costs" line item. See Notes 5.a, 5.b, 5.d and 5.e for definition of and information regarding the March 2023 Notes, January 2022 Notes, January 2019 Notes and the Senior Secured Credit Facility, respectively.

As of September 30, 2015, the Company has early-adopted new guidance that seeks to simplify the presentation of debt issuance costs and has applied its provisions retrospectively. The adoption of this standard resulted in the reclassification of $19.4 million and $21.8 million of unamortized debt issuance costs related to the Company's senior unsecured notes from "Other assets, net" to "Long-term debt, net" within its consolidated balance sheets as of September 30, 2015 and December 31, 2014, respectively. Other than this reclassification, the adoption of this standard did not have an impact on the Company's unaudited consolidated financial statements. Debt issuance costs related to the Senior Secured Credit Facility remain recorded in "Other assets, net" on the Company's unaudited consolidated balance sheets. See Notes 5.g and 18 for additional discussion of debt issuance costs.

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Future amortization expense of debt issuance costs as of September 30, 2015 is as follows:

(in thousands)	
Remaining 2015	$1,116
2016	4,503
2017	4,575
2018	4,349
2019	2,915
Thereafter	7,589
Total	$25,047

h. Other current liabilities

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

(in thousands)	September 30, 2015	December 31, 2014
Capital contribution payable to equity method investee(1)	$34,322	$—
Accrued interest payable	21,635	37,689
Costs of purchased oil payable	15,047	20,114
Lease operating expense payable	14,117	11,963
Other accrued liabilities	27,083	31,266
Total other current liabilities	$112,204	$101,032

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(1) See Notes 14, 15 and 19.a for additional discussion regarding our equity method investee.

i. Asset retirement obligations

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

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

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

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

(in thousands)	Nine months ended September 30, 2015	Year ended December 31, 2014

Liability at beginning of period	$32,198	$21,743
Liabilities added due to acquisitions, drilling, midstream service asset construction and other	1,675	6,370
Accretion expense	1,771	1,787
Liabilities settled upon plugging and abandonment	(122)	(450)
Liabilities removed due to sale of property	(2,005)	—
Revision of estimates	—	2,748
Liability at end of period	$33,517	$32,198

j. Treasury stock

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

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k. Fair value measurements

The carrying amounts reported in the unaudited consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, undistributed revenue and royalties, accrued capital expenditures and other accrued assets and liabilities approximate their fair values. See Note 5.f for fair value disclosures related to the Company's debt obligations. The Company carries its derivatives at fair value. See Notes 8 and 9 for details regarding the fair value of the Company's derivatives.

l. Compensation awards

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

m. Long-lived assets, materials and supplies and line-fill

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

Materials and supplies are used in developing oil and natural gas properties, are carried at the lower of cost or market ("LCM") and are included in "Other current assets" and "Other assets, net" on the unaudited consolidated balance sheets. The market price for materials and supplies is determined utilizing the Company's recent prices paid to acquire materials. During the nine months ended September 30, 2015, the Company reduced materials and supplies by $2.3 million in order to reflect the balance at LCM. The adjustment is included in "Impairment expense" in the unaudited consolidated statements of operations and in "Other operating costs and expenses" for the Company's exploration and production segment presented in Note 16. The Company determined an LCM adjustment was not necessary for materials and supplies during the three months ended September 30, 2015, or during the three and nine months ended September 30, 2014.

The minimum volume of product in a pipeline system that enables the system to operate is known as line-fill, and is generally not available to be withdrawn from the pipeline system until the expiration of the transportation contract. Beginning in the fourth quarter of 2014, the Company owns oil line-fill in third-party pipelines, which is accounted for at LCM with cost determined using the weighted-average cost method, and is included in "Other assets, net" on the unaudited consolidated balance sheets. The LCM adjustment is determined utilizing a quoted market price adjusted for regional price differentials (Level 2). For the three and nine months ended September 30, 2015, the Company recorded LCM adjustments of $0.4 million and $0.5 million, respectively, related to its line-fill, which is included in "Impairment expense" in the unaudited consolidated statements of operations and as "Other operating costs and expenses" for the Company's midstream and marketing segment presented in Note 16.

n. Environmental

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, among other things, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed in the period incurred. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment or remediation is probable and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments is fixed and readily determinable. Management believes no materially significant liabilities of this nature existed as of September 30, 2015 or December 31, 2014.

o. Non-cash investing and supplemental cash flow information

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

	Nine months ended September 30,	
(in thousands)	2015	2014
Non-cash investing information:		
Change in accrued capital expenditures	$(98,958)	$23,945
Change in accrued capital contribution to equity method investee[1]	$34,322	$(2,598)
Capitalized asset retirement cost	$1,675	$4,767
Supplemental cash flow information:		
Capitalized interest	$227	$51

(1) See Notes 14, 15 and 19.a for additional discussion regarding our equity method investee.

Note 3—Equity offering

On March 5, 2015, the Company completed the sale of 69,000,000 shares of Laredo's common stock at a price to the public of $11.05 per share (the "March 2015 Equity Offering"). The Company received net proceeds of $754.2 million, after underwriting discounts, commissions and offering expenses. Entities affiliated with Warburg Pincus LLC ("Warburg Pincus") purchased 29,800,000 shares in the March 2015 Equity Offering, following which Warburg Pincus owned 41.0% of Laredo's common stock. There were no comparative offerings of the Company's stock during the three or nine months ended September 30, 2014.

Note 4—Acquisitions

a. Divestiture of non-strategic assets

On September 15, 2015, the Company completed the sale of non-strategic and primarily non-operated properties and associated production totaling 6,060 net acres and 123 producing properties in the Midland Basin to a third-party buyer for a sales price of $65.5 million. After transaction costs and adjustments at closing reflecting an economic effective date of July 1, 2015, the net proceeds were $65.2 million, net of working capital adjustments and subject to post-closing cost adjustments. The purchase price, excluding post-closing adjustments, was allocated to oil and natural gas properties pursuant to the rules governing full cost accounting.

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

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2015	2014	2015	2014
Oil, NGL and natural gas sales	$1,371	$5,644	$5,419	$15,574
Expenses[1]	1,781	3,042	6,565	7,789

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

b. 2014 acquisition of leasehold interests

On August 28, 2014, the Company completed a material acquisition of leasehold interests totaling 8,156 net acres in the Midland Basin, primarily within the Company's core development area, for $192.5 million. The acquisition was accounted for as an acquisition of assets.

c. 2014 acquisition of mineral interests

On February 25, 2014, the Company completed the acquisition of the mineral interests underlying 278 net acres in Glasscock County, Texas in the Midland Basin for $7.3 million. These mineral interests entitle the Company to receive royalty payments on all production from this acreage with no additional future capital or operating expenses required. As such, the purchase was accounted for as an acquisition of assets.

d. 2014 acquisitions of evaluated and unevaluated oil and natural gas properties

The Company accounts for acquisitions of evaluated and unevaluated oil and natural gas properties under the acquisition method of accounting. Accordingly, the Company conducts assessments of net assets acquired and recognizes amounts for identifiable assets acquired and liabilities assumed at the estimated acquisition date fair values, while transaction and integration costs associated with the acquisitions are expensed as incurred.

The Company makes various assumptions in estimating the fair values of assets acquired and liabilities assumed. The most significant assumptions relate to the estimated fair values of evaluated and unevaluated oil and natural gas properties. The fair values of these properties are measured using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation include estimates of: (i) reserves, (ii) future operating and development costs, (iii) future commodity prices and (iv) a market-based weighted-average cost of capital rate. The market-based weighted-average cost of capital rate is subject to additional project-specific risk factors. To compensate for the inherent risk of estimating the value of the unevaluated properties, the discounted future net revenues of probable and possible reserves are reduced by additional risk-weighting factors.

On June 11, 2014, the Company completed the acquisition of evaluated and unevaluated oil and natural gas properties, totaling 460 net acres, located in Reagan County, Texas for $4.7 million, net of closing adjustments. On June 23, 2014, the Company completed the acquisition of evaluated and unevaluated oil and natural gas properties, totaling 24 net acres, located in Glasscock County, Texas for $1.8 million. The results of operations prior to June 2014 do not include results from these acquisitions.

Note 5—Debt

a. March 2023 Notes

On March 18, 2015, the Company completed an offering of $350.0 million in aggregate principal amount of 6 1/4% senior unsecured notes due 2023 (the "March 2023 Notes"), and entered into an Indenture (the "Base Indenture"), as supplemented by the Supplemental Indenture (the "Supplemental Indenture" and, together with the Base Indenture, the "Indenture"), among Laredo, LMS and GCM, as guarantors, and Wells Fargo Bank, National Association, as trustee. The March 2023 Notes will mature on March 15, 2023 with interest accruing at a rate of 6 1/4% per annum and 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

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the Indenture, designation of a subsidiary guarantor as a non-guarantor restricted subsidiary or as an unrestricted subsidiary in accordance with the Indenture, release from guarantee under the Senior Secured Credit Facility (as defined below), or liquidation or dissolution (collectively, the "Releases").

The March 2023 Notes were offered and sold pursuant to a prospectus supplement dated March 4, 2015 and the base prospectus dated March 22, 2013, relating to the Company's effective shelf registration statement on Form S-3 (File No. 333-187479). The Company received net proceeds of $343.6 million from the offering, after deducting the underwriters' discount and the estimated outstanding offering expenses. In April 2015, the Company used the proceeds of the offering to fund a portion of the Company's redemption of the January 2019 Notes (as defined below). See Note 5.d for additional discussion of this early redemption.

The Company may redeem, at its option, all or part of the March 2023 Notes at any time on or after March 15, 2018, at the applicable redemption price plus accrued and unpaid interest to, but not including, the date of redemption. Further, before March 15, 2018, the Company may on one or more occasions redeem up to 35% of the aggregate principal amount of the March 2023 Notes in an amount not exceeding the net proceeds from one or more private or public equity offerings at a redemption price of 106.25% of the principal amount of the March 2023 Notes, plus accrued and unpaid interest to the date of redemption, if at least 65% of the aggregate principal amount of the March 2023 Notes remains outstanding immediately after such redemption and the redemption occurs within 180 days of the closing date of each such equity offering. If a change of control occurs prior to March 15, 2016, the Company may redeem all, but not less than all, of the March 2023 Notes at a redemption price equal to 110% of the principal amount of the March 2023 Notes plus any 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.

c. May 2022 Notes

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

d. January 2019 Notes

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

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

e. Senior Secured Credit Facility

As of September 30, 2015, the Fourth Amended and Restated Credit Agreement (as amended, the "Senior Secured Credit Facility"), which matures on November 4, 2018, had a maximum credit amount of $2.0 billion, a borrowing base of $1.25 billion and an aggregate elected commitment of $1.0 billion with $135.0 million outstanding and was subject to an interest rate of 1.7500%. It contains both financial and non-financial covenants, all of which the Company was in compliance with as of September 30, 2015. Laredo is required to pay an annual commitment fee on the unused portion of the financial institutions' commitment of 0.375% to 0.5%, based on the ratio of outstanding revolving credit to the total commitment under

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the Senior Secured Credit Facility. Additionally, the Senior Secured Credit Facility provides for the issuance of letters of credit, limited to the lesser of total capacity or $20.0 million. No letters of credit were outstanding as of September 30, 2015 or 2014.

See Note 19.b for information regarding changes, subsequent to September 30, 2015, in the Senior Secured Credit Facility's borrowing base.

f. Fair value of debt

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

(in thousands)	September 30, 2015 Carrying value	September 30, 2015 Fair value	December 31, 2014 Carrying value	December 31, 2014 Fair value
January 2019 Notes[1]	$—	$—	$551,295	$550,000
January 2022 Notes	450,000	405,000	450,000	396,014
May 2022 Notes	500,000	487,500	500,000	467,529
March 2023 Notes	350,000	318,500	—	—
Senior Secured Credit Facility	135,000	134,981	300,000	300,279
Total value of debt	$1,435,000	$1,345,981	$1,801,295	$1,713,822

(1) The carrying value of the January 2019 Notes includes the October Notes unamortized bond premium of $1.3 million as of December 31, 2014.

The fair values of the debt outstanding on the January 2019 Notes, January 2022 Notes, May 2022 Notes and the March 2023 Notes were determined using the September 30, 2015 and December 31, 2014 quoted market price (Level 1) for each respective instrument. The fair values of the outstanding debt on the Senior Secured Credit Facility as of September 30, 2015 and December 31, 2014 were estimated utilizing pricing models for similar instruments (Level 2). See Note 9 for information about fair value hierarchy levels.

g. Debt issuance costs

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

(in thousands)	September 30, 2015 Carrying value	September 30, 2015 Debt issuance costs, net	September 30, 2015 Long-term debt, net	December 31, 2014 Carrying value	December 31, 2014 Debt issuance costs, net	December 31, 2014 Long-term debt, net
January 2019 Notes	$—	$—	$—	$551,295	$(7,031)	$544,264
January 2022 Notes	450,000	(6,183)	443,817	450,000	(6,916)	443,084
May 2022 Notes	500,000	(7,281)	492,719	500,000	(7,901)	492,099
March 2023 Notes	350,000	(5,970)	344,030	—	—	—
Senior Secured Credit Facility[1]	135,000	—	135,000	300,000	—	300,000
Total	$1,435,000	$(19,434)	$1,415,566	$1,801,295	$(21,848)	$1,779,447

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

Note 6—Employee compensation

The Company has a Long-Term Incentive Plan (the "LTIP"), which provides for the granting of incentive awards in the form of restricted stock awards, restricted stock option awards, performance share awards, performance unit awards and other awards. The LTIP provides for the issuance of 10.0 million shares.

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

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accounted for as equity instruments and its performance unit awards are accounted for as liability awards. Stock-based compensation is included in "General and administrative" in the unaudited consolidated statements of operations. The Company capitalizes a portion of stock-based compensation for employees who are directly involved in the acquisition, exploration and development of oil and natural gas properties into the full cost pool. Capitalized stock-based compensation is included as an addition to "Oil and natural gas properties" in the unaudited consolidated balance sheets.

a. Restricted stock awards

All restricted stock awards are treated as issued and outstanding in the accompanying unaudited consolidated financial statements. Per the award agreement terms, if an employee terminates employment prior to the restriction lapse date, for reasons other than death or disability, the awarded shares are forfeited and canceled and are no longer considered issued and outstanding. If the employee's termination of employment is by reason of death or disability, all of the holder's restricted stock will automatically vest. Restricted stock awards granted to officers and employees vest in a variety of vesting schedules including (i) 20% at the grant date and then 20% annually thereafter, (ii) 33%, 33% and 34% per year beginning on the first anniversary date of the grant, (iii) 50% in year two and 50% in year three, (iv) fully on the first anniversary of the grant date and (v) fully on the third anniversary of the grant date. Restricted stock awards granted to non-employee directors vest fully on the first anniversary of the grant date.

The following table reflects the outstanding restricted stock awards for the nine months ended September 30, 2015:

(in thousands, except for weighted-average grant date fair values)	Restricted stock awards	Weighted-average grant date fair value (per award)
Outstanding as of December 31, 2014	2,205	$22.63
Granted	1,894	$11.98
Forfeited	(519)	$20.90
Vested[(1)]	(984)	$22.39
Outstanding as of September 30, 2015	2,596	$15.32

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

The Company utilizes the closing stock price on the grant date to determine the fair value of service vesting restricted stock awards. As of September 30, 2015, unrecognized stock-based compensation related to the restricted stock awards expected to vest was $26.4 million. Such cost is expected to be recognized over a weighted-average period of 1.90 years.

b. Restricted stock option awards

Restricted stock option awards granted under the LTIP vest and are exercisable in four equal installments on each of the four anniversaries of the grant date. The following table reflects the stock option award activity for the nine months ended September 30, 2015:

(in thousands, except for weighted-average exercise price and contractual term)	Restricted stock option awards	Weighted-average exercise price (per option)	Weighted-average remaining contractual term (years)
Outstanding as of December 31, 2014	1,367	$20.76	8.17
Granted	632	$11.93	
Exercised	—	$—	