UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2019

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 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)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock, $0.01 par value	**LPI**	**New York Stock Exchange**

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 o

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No o

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

Large accelerated filer	☒	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. o

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 July 29, 2019: 237,469,613

LAREDO PETROLEUM, INC.
TABLE OF CONTENTS

	Page
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS	iii
Part I	1
Item 1. Consolidated Financial Statements (Unaudited)	1
Consolidated balance sheets as of June 30, 2019 and December 31, 2018	1
Consolidated statements of operations for the three and six months ended June 30, 2019 and 2018	2
Consolidated statements of stockholders' equity for the three and six months ended June 30, 2019 and 2018	3
Consolidated statements of cash flows for the six months ended June 30, 2019 and 2018	4
Condensed notes to the consolidated financial statements:	5
Note 1—Organization and basis of presentation	5
Note 2—Recently issued or adopted accounting pronouncements	5
Note 3—Leases	6
Note 4—Property and equipment	9
Note 5—Debt	10
Note 6—Stockholders' equity and Equity Incentive Plan	12
Note 7—Derivatives	18
Note 8—Fair value measurements	20
Note 9—Net income per common share	22
Note 10—Commitments and contingencies	23
Note 11—Supplemental cash flow and non-cash information	24
Note 12—Asset retirement obligations	25
Note 13—Revenue recognition	25
Note 14—Income taxes	26
Note 15—Related party	26
Note 16—Subsidiary Guarantors	27
Note 17—Organizational restructuring	30
Note 18—Subsequent events	30
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3. Quantitative and Qualitative Disclosures About Market Risk	46
Item 4. Controls and Procedures	48
Part II	49
Item 1. Legal Proceedings	49
Item 1A. Risk Factors	49
Item 2. Purchases of Equity Securities	50
Item 3. Defaults Upon Senior Securities	50
Item 4. Mine Safety Disclosures	50
Item 5. Other Information	50
Item 6. Exhibits	51
SIGNATURES	52

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, natural gas liquids ("NGL") 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, 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;
- changes in domestic and global production, supply and demand for oil, NGL and natural gas;
- revisions to our reserve estimates as a result of changes in commodity prices, decline curves and other uncertainties;
- the long-term performance of wells that were completed using different technologies;
- 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;
- the potential impact on production of oil, NGL and natural gas from our wells due to tighter spacing of our wells;
- capital requirements for our operations and projects;
- impacts to our financial statements as a result of impairment write-downs;
- 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;
- 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;
- 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 generate sufficient cash to service our indebtedness, fund our capital requirements and generate future profits;
- 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;
- 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;
- our ability to hedge and regulations that affect our ability to hedge;
- changes in the regulatory environment and changes in United States or international legal, tax, 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;
- drilling and operating risks, including risks related to hydraulic fracturing activities; and
- our ability to comply with federal, state and local regulatory requirements.

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

Part I

Item 1. Consolidated Financial Statements (Unaudited)

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

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 55,800	$ 45,151
Accounts receivable, net	76,610	94,321
Derivatives	47,167	39,835
Other current assets	12,938	13,445
Total current assets	192,515	192,752
Property and equipment:		
Oil and natural gas properties, full cost method:		
Evaluated properties	7,080,332	6,752,631
Unevaluated properties not being depleted	95,138	130,957
Less accumulated depletion and impairment	(4,975,302)	(4,854,017)
Oil and natural gas properties, net	2,200,168	2,029,571
Midstream service assets, net	131,633	130,245
Other fixed assets, net	37,933	39,819
Property and equipment, net	2,369,734	2,199,635
Derivatives	25,798	11,030
Operating lease right-of-use assets	18,903	—
Other noncurrent assets, net	12,972	16,888
Total assets	$ 2,619,922	$ 2,420,305
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 51,289	$ 69,504
Accrued capital expenditures	32,310	29,975
Undistributed revenue and royalties	44,731	48,841
Derivatives	1,473	7,359
Operating lease liabilities	9,948	—
Other current liabilities	30,927	44,786
Total current liabilities	170,678	200,465
Long-term debt, net	1,029,526	983,636
Asset retirement obligations	55,645	53,387
Operating lease liabilities	12,055	—
Other noncurrent liabilities	7,697	8,587
Total liabilities	1,275,601	1,246,075
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized and zero issued as of June 30, 2019 and December 31, 2018	—	—
Common stock, $0.01 par value, 450,000,000 shares authorized and 237,479,812 and 233,936,358 issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	2,375	2,339
Additional paid-in capital	2,381,450	2,375,286
Accumulated deficit	(1,039,504)	(1,203,395)
Total stockholders' equity	1,344,321	1,174,230
Total liabilities and stockholders' equity	$ 2,619,922	$ 2,420,305

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

Laredo Petroleum, Inc.
Consolidated statements of operations
(in thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenues:				
Oil sales	$ 160,030	$ 159,051	$ 289,201	$ 309,965
NGL sales	22,197	36,805	54,432	65,165
Natural gas sales	1,636	12,705	13,606	30,865
Midstream service revenues	2,610	1,976	5,493	4,335
Sales of purchased oil	30,170	140,509	62,858	200,412
Total revenues	216,643	351,046	425,590	610,742
Costs and expenses:				
Lease operating expenses	23,632	22,642	46,241	44,593
Production and ad valorem taxes	11,328	12,405	18,547	24,217
Transportation and marketing expenses	4,891	1,534	9,650	1,534
Midstream service expenses	607	403	2,210	1,096
Costs of purchased oil	30,172	140,578	62,863	201,242
General and administrative	11,056	26,834	32,575	51,559
Restructuring expenses	10,406	—	10,406	—
Depletion, depreciation and amortization	65,703	50,762	128,801	96,315
Other operating expenses	1,020	1,121	2,072	2,227
Total costs and expenses	158,815	256,279	313,365	422,783
Operating income	57,828	94,767	112,225	187,959
Non-operating income (expense):				
Gain (loss) on derivatives, net	88,394	(45,976)	40,029	(36,966)
Interest expense	(15,765)	(14,424)	(31,312)	(27,942)
Litigation settlement	42,500	—	42,500	—
Loss on disposal of assets, net	(670)	(1,358)	(1,609)	(3,975)
Other income, net	2,846	443	3,713	896
Non-operating income (expense), net	117,305	(61,315)	53,321	(67,987)
Income before income taxes	175,133	33,452	165,546	119,972
Income tax expense:				
Deferred	(1,751)	—	(1,655)	—
Total income tax expense	(1,751)	—	(1,655)	—
Net income	$ 173,382	$ 33,452	$ 163,891	$ 119,972
Net income per common share:				
Basic	$ 0.75	$ 0.14	$ 0.71	$ 0.51
Diluted	$ 0.75	$ 0.14	$ 0.71	$ 0.51
Weighted-average common shares outstanding:				
Basic	231,406	230,933	230,943	234,561
Diluted	231,557	231,706	231,725	235,501

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

Laredo Petroleum, Inc.
Consolidated statements 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, 2018	233,936	$ 2,339	$ 2,375,286	—	$ —	$ (1,203,395)	$ 1,174,230
Restricted stock awards	5,986	60	(60)	—	—	—	—
Restricted stock forfeitures	(48)	—	—	—	—	—	—
Stock exchanged for tax withholding	—	—	—	683	(2,612)	—	(2,612)
Stock exchanged for cost of exercise of stock options	—	—	—	18	(76)	—	(76)
Retirement of treasury stock	(701)	(7)	(2,681)	(701)	2,688	—	—
Exercise of stock options	18	—	76	—	—	—	76
Stock-based compensation	—	—	9,305	—	—	—	9,305
Net loss	—	—	—	—	—	(9,491)	(9,491)
Balance, March 31, 2019	239,191	2,392	2,381,926	—	—	(1,212,886)	1,171,432
Restricted stock awards	1,064	11	(11)	—	—	—	—
Restricted stock forfeitures	(2,763)	(28)	28	—	—	—	—
Stock exchanged for tax withholding	—	—	—	12	(34)	—	(34)
Retirement of treasury stock	(12)	—	(34)	(12)	34	—	—
Stock-based compensation (See Note 6.c)	—	—	(459)	—	—	—	(459)
Net income	—	—	—	—	—	173,382	173,382
Balance, June 30, 2019	237,480	$ 2,375	$ 2,381,450	—	$ —	$ (1,039,504)	$ 1,344,321

	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 13.a)	—	—	—	—	—	141,118	141,118
Restricted stock awards	3,052	30	(30)	—	—	—	—
Restricted stock forfeitures	(13)	—	—	—	—	—	—
Share repurchases	—	—	—	6,728	(58,475)	—	(58,475)
Stock exchanged for tax withholding	—	—	—	512	(4,353)	—	(4,353)
Retirement of treasury stock	(7,240)	(72)	(62,756)	(7,240)	62,828	—	—
Stock-based compensation	—	—	11,441	—	—	—	11,441
Net income	—	—	—	—	—	86,520	86,520
Balance, March 31, 2018	238,320	2,383	2,380,917	—	—	(1,441,470)	941,830
Restricted stock awards	141	2	(2)	—	—	—	—
Restricted stock forfeitures	(113)	(1)	1	—	—	—	—
Share repurchases	—	—	—	3,151	(28,743)	—	(28,743)
Stock exchanged for tax withholding	—	—	—	3	(44)	—	(44)
Retirement of treasury stock	(3,154)	(32)	(28,755)	(3,154)	28,787	—	—
Stock-based compensation	—	—	12,672	—	—	—	12,672
Net income	—	—	—	—	—	33,452	33,452
Balance, June 30, 2018	235,194	$ 2,352	$ 2,364,833	—	$ —	$ (1,408,018)	$ 959,167

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

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

	Six months ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net income	$ 163,891	$ 119,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense	1,655	—
Depletion, depreciation and amortization	128,801	96,315
Non-cash stock-based compensation, net	6,983	20,015
Mark-to-market on derivatives:		
(Gain) loss on derivatives, net	(40,029)	36,966
Settlements received (paid) for matured derivatives, net	23,582	(2,055)
Settlements paid for early terminations of derivatives, net	(5,409)	—
Change in net present value of derivative deferred premiums	119	396
Premiums paid for derivatives	(6,249)	(9,475)
Amortization of debt issuance costs	1,693	1,638
Amortization of operating lease right-of-use assets	6,309	—
Other, net	4,068	6,910
Decrease (increase) in accounts receivable	17,537	(2,331)
Increase in other current assets	(4,200)	(10,974)
Decrease in other noncurrent assets	3,077	1,835
(Decrease) increase in accounts payable and accrued liabilities	(18,215)	15,911
(Decrease) increase in undistributed revenue and royalties	(4,110)	8,146
Decrease in other current liabilities	(18,134)	(20,124)
Decrease in other noncurrent liabilities	(100)	(544)
Net cash provided by operating activities	261,269	262,601
Cash flows from investing activities:		
Acquisitions of oil and natural gas properties	(2,880)	(16,340)
Capital expenditures:		
Oil and natural gas properties	(284,616)	(341,534)
Midstream service assets	(5,449)	(5,205)
Other fixed assets	(965)	(4,965)
Proceeds from disposition of equity method investee, net of selling costs	—	1,655
Proceeds from disposition of capital assets, net of selling costs	936	12,317
Net cash used in investing activities	(292,974)	(354,072)
Cash flows from financing activities:		
Borrowings on Senior Secured Credit Facility	80,000	110,000
Payments on Senior Secured Credit Facility	(35,000)	—
Share repurchases	—	(87,218)
Stock exchanged for tax withholding	(2,646)	(4,397)
Payments for debt issuance costs	—	(2,469)
Net cash provided by financing activities	42,354	15,916
Net increase (decrease) in cash and cash equivalents	10,649	(75,555)
Cash and cash equivalents, beginning of period	45,151	112,159
Cash and cash equivalents, end of period	$ 55,800	$ 36,604

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

Note 1—Organization and basis of presentation

a. Organization

Laredo Petroleum, Inc. ("Laredo"), together with its wholly-owned subsidiaries, Laredo Midstream Services, LLC ("LMS") and Garden City Minerals, LLC ("GCM"), is an independent energy company focused on the acquisition, exploration and development of oil and natural gas properties, and midstream and marketing services, primarily in the Permian Basin of West Texas. LMS and GCM (together, the "Guarantors") guarantee all of Laredo's debt instruments. In these notes, the "Company" refers to Laredo, LMS and GCM collectively, unless the context indicates otherwise. All amounts, dollars and percentages presented in these unaudited consolidated financial statements and the related notes are rounded and, therefore, approximate.

b. Basis of presentation

The 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 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 unaudited consolidated financial statements have not been audited by the Company's independent registered public accounting firm, except that the consolidated balance sheet as of December 31, 2018 is derived from audited consolidated financial statements. In the opinion of management, the unaudited consolidated financial statements reflect all necessary adjustments to present fairly the Company's financial position as of June 30, 2019, results of operations for the three and six months ended June 30, 2019 and 2018 and cash flows for the six months ended June 30, 2019 and 2018.

Certain disclosures have been condensed or omitted from the unaudited consolidated financial statements. Accordingly, the unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the 2018 Annual Report.

Significant accounting policies

See Note 2 in the 2018 Annual Report for discussion of significant accounting policies and Note 3 for those related to the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 842, *Leases* ("ASC 842").

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

The preparation of the unaudited consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes these estimates are reasonable, actual results could differ.

For further information regarding the use of estimates and assumptions, see Note 2.b in the 2018 Annual Report, Note 3 pertaining to the Company's leases and Note 6.c pertaining to the Company's 2019 performance share awards and outperformance share award.

Note 2—Recently issued or adopted accounting pronouncements

The Company considers the applicability and impact of all accounting standard updates ("ASU") issued by the FASB. The discussion of the ASU listed below was determined to be meaningful to the Company's unaudited consolidated financial statements and footnotes during the six months ended June 30, 2019.

Leases

On January 1, 2019, the Company adopted ASC 842 using the modified retrospective approach and applying the optional transition method as of the beginning of the period of adoption. Results for the period beginning after January 1, 2019 are presented under ASC 842, while prior periods are not adjusted and continue to be reported under ASC 840. The Company utilized the transition package of expedients for leases that commenced before the effective date. ASC 842 supersedes previous lease guidance in ASC 840, *Leases* ("ASC 840"). The core principle of the new guidance is that a lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term related to its leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize lease assets and lease liabilities. See Note 3 for further discussion of the ASC 842 adoption impact on the Company's unaudited consolidated financial statements.

Note 3—Leases

a. Impact of ASC 842 adoption

Prior to January 1, 2019, the Company accounted for leases under ASC 840 and did not record any right-of-use assets or corresponding lease liabilities. Upon the adoption of ASC 842 on January 1, 2019, the Company recognized $22.1 million in operating lease right-of-use assets and $25.3 million in operating lease liabilities on the unaudited consolidated balance sheets for operating leases with a term greater than 12 months. The difference between the two balances of $3.2 million is mainly due to free rent and lease build-out incentives that were recorded as deferred lease liabilities under ASC 840. These deferred lease liabilities are subtracted from the right-of-use asset opening balance under ASC 842. The transition did not result in a material impact to the unaudited consolidated statements of operations nor was there a related impact to the unaudited consolidated statements of stockholders' equity.

The Company utilized the modified retrospective approach in adopting the new standard and applied the optional transition method as of the beginning of the period of adoption, along with the transition package of practical expedients, and implemented certain accounting policy decisions which include: (i) short-term lease recognition exemption, (ii) establishing a balance sheet recognition capitalization threshold, (iii) not evaluating existing or expired land easements that were not previously accounted for as leases under ASC 840 and (iv) accounting for certain asset classes at a portfolio level by not separating the lease and non-lease components and accounting for the agreement as a single lease component.

The Company determines whether a contract is or contains a lease at inception of the contract, based on answers to a series of questions that address whether an identified asset exists and whether the Company has the right to obtain substantially all of the benefit of the asset and to control its use over the full term of the agreement. When available, the Company uses the rate implicit in the lease to discount lease payments to present value; however, most of the Company's leases do not provide a readily determinable implicit rate. In such cases, the Company is required to use its incremental borrowing rate ("IBR"). The Company determines its IBR using both a "credit notching" approach and a "recovery method" approach. The results of these approaches are then weighted equally and averaged in order to determine the concluded IBR. This concluded IBR is utilized to discount the lease payments based on information available at lease commencement. There are no material residual value guarantees, nor any restrictions or covenants included in the Company's lease agreements.

Mineral leases, including oil and natural gas leases granting the right to explore for those natural resources and rights to use the land in which those natural resources are contained, are not included in the scope of ASC 842.

The Company has recognized operating lease assets and operating lease liabilities on the unaudited consolidated balance sheets for leases of commercial real estate with lease terms extending into 2027 and drilling, completion, production and other equipment leases with lease terms extending through 2020. The Company has various other drilling, completion and production equipment leases on a short-term basis which are reflected in short-term lease costs.

The Company's lease costs include those that are recognized in net income (loss) during the period and capitalized as part of the cost of another asset in accordance with other GAAP.

The costs related to drilling, completion and production activities are reflected at the Company's net ownership, which is consistent with the principals of proportional consolidation, and lease commitments are reflected on a gross basis. As of June 30, 2019, the Company had an average working interest of 97% in all Laredo-operated currently producing wells in its core operating area.

The Company's short-term lease costs are not included in the calculation of lease liabilities and right-of-use assets.

Certain of the Company's leases include provisions for variable payments. These variable payments are typically determined based on a measure of throughput, actual days or another measure of usage and are not included in the calculation of lease liabilities and right-of-use assets. For our drilling rigs, the variable lease costs include the payments that depend on the performance or usage of the underlying asset, the costs to move and the costs to repair the drilling rigs. For certain of our commercial office buildings, utilities and common area maintenance charges are variable. For our equipment leases, the variable lease cost is the amount incurred under our contracts that are beyond the minimum rental fee, inclusive of maintenance.

Of the Company's commercial leases, the Company subleases certain office space to third parties where it is the primary obligor under the head lease. The lease terms on those subleases each contain renewal options that do not extend past the term of the head lease. The subleases do not contain residual value guarantees. Sublease income is recognized based on the contract terms and, upon the adoption of ASC 842, is included as a reduction of lease expense under the head lease.

The Company does not have any significant finance leases.

Certain of the Company's lease asset classes include options to renew on a month-to-month basis. The Company considers contract-based, asset-based, market-based, and entity-based factors to determine the term over which it is reasonably certain to extend the lease in determining its right-of-use assets and liabilities.

The Company's material leases do not include options to purchase the leased property.

Lease costs

The table below presents components of total lease costs and supplemental cash flow information for the Company's operating leases for the periods presented:

(in thousands)	Three months ended June 30, 2019	Six months ended June 30, 2019
Operating lease costs(1)	$ 3,713	$ 7,241
Short-term lease costs(2)	49,108	95,434
Variable lease costs(3)	1,254	1,772
Sublease income	(247)	(494)
Total lease costs	$ 53,828	$ 103,953
Supplemental cash paid for amounts included in the measurement of lease liabilities information(4):		
Operating cash flows from operating leases	$ 1,294	$ 2,824
Investing cash flows from operating leases(5)	$ 2,270	$ 4,516

(1) Amounts represent straight-line costs associated with the Company's operating lease right-of-use assets.

(2) Amounts represent costs associated with short-term leases that are not recorded on the unaudited consolidated balance sheets.

(3) Variable lease costs are primarily comprised of the non-lease service component of drilling rig commitments above the minimum required payments. Both the minimum required payments and the non-lease service component of the drilling rig commitments are capitalized as additions to oil and natural gas properties.

(4) Cash paid for amounts included in the measurement of lease liabilities may not agree to operating lease costs due to timing of cash payments and costs incurred.

(5) Amounts associated with drilling operations are capitalized as additions to oil and natural gas properties.

Other information

See Note 11 for disclosure of supplemental cash paid for amounts included in the measurement of lease liabilities and supplemental non-cash adjustments. See Note 15 for disclosure of related-party lease amounts.

Lease terms and discount rates

The table below presents the weighted-average remaining lease term and weighted-average discount rate for the Company's operating leases as of the date presented:

	June 30, 2019
Weighted-average remaining lease term	3.85 years
Weighted-average discount rate	8.27%

Maturities of operating lease liabilities

The table below reconciles the undiscounted cash flows for recognized operating lease liabilities for each of the first five years and the total remaining years to the operating lease liabilities recorded on the unaudited consolidated balance sheet as of the date presented:

(in thousands)	June 30, 2019
Remaining 2019	$ 11,279
2020	4,729
2021	2,833
2022	2,027
2023	1,259
Thereafter	3,925
Total minimum lease payments	26,052
Less: lease liability expense	(4,049)
Present value of future minimum lease payments	22,003
Less: current operating lease liabilities	(9,948)
Noncurrent operating lease liabilities	$ 12,055

Disclosure for the period prior to adoption of ASC 842

The Company leases office space under operating leases expiring on various dates through 2027. The following table presents future minimum rental payments required as of the date presented:

(in thousands)	December 31, 2018
2019	$ 3,092
2020	3,179
2021	3,128
2022	2,560
2023	1,358
Thereafter	4,556
Total future minimum rental payments required	$ 17,873

The Company subleases office space with $5.9 million of total future minimum rentals to be received as of December 31, 2018. For the period prior to the adoption of ASC 842, rent income is included in "Other income, net" on the consolidated statements of operations.

Note 4—Property and equipment

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

(in thousands)	June 30, 2019	December 31, 2018
Evaluated oil and natural gas properties	$ 7,080,332	$ 6,752,631
Less accumulated depletion and impairment	(4,975,302)	(4,854,017)
Evaluated oil and natural gas properties, net	2,105,030	1,898,614
Unevaluated oil and natural gas properties not being depleted	95,138	130,957
Midstream service assets	178,735	172,308
Less accumulated depreciation and impairment	(47,102)	(42,063)
Midstream service assets, net	131,633	130,245
Depreciable other fixed assets	44,654	45,431
Less accumulated depreciation and amortization	(24,980)	(23,871)
Depreciable other fixed assets, net	19,674	21,560
Land	18,259	18,259
Total property and equipment, net	$ 2,369,734	$ 2,199,635

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

The following table presents capitalized related employee costs incurred for the purpose of exploring for or developing oil and natural gas properties for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2019	2018	2019	2018
Capitalized related employee costs	$ 3,430	$ 6,735	$ 10,112	$ 13,264

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

The full cost ceiling is based principally on the estimated future net revenues from proved oil and natural gas properties discounted at 10%. The SEC guidelines require companies to use the unweighted arithmetic average first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period before differentials ("Benchmark Prices"). The Benchmark Prices are then adjusted for quality, transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the wellhead ("Realized Prices"). The Realized Prices are utilized to calculate the discounted future net revenues in the full cost ceiling calculation. Significant inputs included in the calculation of discounted cash flows used in the impairment analysis include the Company's estimate of operating and development costs, anticipated production of proved reserves and other relevant data.

In the event the unamortized cost of evaluated oil and natural gas properties being depleted exceeds the full cost ceiling, as defined by the SEC, the excess is charged to expense in the period such excess occurs. Once incurred, a write-down of oil and natural gas properties is not reversible. As the Company's Realized Prices decrease, it is reasonably possible that a material full cost ceiling impairment could occur. The unamortized cost of evaluated oil and natural gas properties did not exceed the full cost ceiling amount as of June 30, 2019 or December 31, 2018. There were no full cost ceiling impairments recorded during the six months ended June 30, 2019 or 2018.

The following table presents the Benchmark Prices and Realized Prices as of the dates presented:

	June 30, 2019	December 31, 2018
Benchmark Prices:		
Oil ($/Bbl)	$ 57.90	$ 62.04
NGL ($/Bbl)[(1)]	$ 28.21	$ 31.46
Natural gas ($/MMBtu)	$ 1.14	$ 1.76
Realized Prices:		
Oil ($/Bbl)	$ 55.69	$ 59.29
NGL ($/Bbl)	$ 18.64	$ 21.42
Natural gas ($/Mcf)	$ 0.70	$ 1.38

(1) Based on the Company's average composite NGL barrel.

The Company computes the provision for depletion of oil and natural gas properties using the unit-of-production method based upon production and estimates of proved reserve quantities. For the three months ended June 30, 2019 and 2018, depletion expense for the Company's evaluated oil and natural gas properties was $8.27 per barrel of oil equivalent ("BOE") sold and $7.68 per BOE sold, respectively. For the six months ended June 30, 2019 and 2018, depletion expense for the Company's evaluated oil and natural gas properties was $8.51 per BOE sold and $7.52 per BOE sold, respectively.

The following table presents costs incurred in the acquisition, exploration and development of oil and natural gas properties, with asset retirement obligations included in evaluated property acquisition costs and development costs, for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2019	2018	2019	2018
Property acquisition costs[(1)]:				
Evaluated	$ —	$ 13,847	$ —	$ 13,847
Unevaluated	2,880	2,790	2,880	2,790
Exploration costs	5,116	5,108	12,621	11,245
Development costs	123,664	178,796	276,381	327,834
Total costs incurred	$ 131,660	$ 200,541	$ 291,882	$ 355,716

(1) See Note 3.a in the second-quarter 2018 Quarterly Report for discussion of the Company's acquisitions of evaluated and unevaluated oil and natural gas properties during the three months ended June 30, 2018.

Note 5—Debt

a. March 2023 Notes

On March 18, 2015, the Company completed an offering of $350.0 million in aggregate principal amount of 6 1/4% senior unsecured notes due 2023 (the "March 2023 Notes"). The March 2023 Notes will mature on March 15, 2023 and bear an interest rate of 6 1/4% per annum, payable semi-annually, in cash in arrears on March 15 and September 15 of each year, commencing September 15, 2015. The March 2023 Notes are fully and unconditionally guaranteed on a senior unsecured basis by LMS, GCM and certain of the Company's future restricted subsidiaries, subject to certain automatic customary releases, including the sale, disposition or transfer of all of the capital stock or of all or substantially all of the assets of a subsidiary guarantor to one or more persons that are not the Company or a restricted subsidiary, exercise of legal defeasance or covenant defeasance options or satisfaction and discharge of the applicable indenture, designation of a subsidiary guarantor as a non-guarantor restricted subsidiary or as an unrestricted subsidiary in accordance with the applicable indenture, release from guarantee under the Senior Secured Credit Facility, or liquidation or dissolution (collectively, the "Releases"). The Company may redeem, at its option, all or part of the March 2023 Notes at any time at a price of 103.125% of face value with call premiums declining annually to 100% of face value on March 15, 2021 and thereafter plus accrued and unpaid interest to, but not including, the date of redemption.

b. January 2022 Notes

On January 23, 2014, the Company completed an offering of $450.0 million in aggregate principal amount of 5 5/8% senior unsecured notes due 2022 (the "January 2022 Notes"). The January 2022 Notes will mature on January 15, 2022 and bear an interest rate of 5 5/8% per annum, payable semi-annually, in cash in arrears on January 15 and July 15 of each year, commencing July 15, 2014. The January 2022 Notes are fully and unconditionally guaranteed on a senior unsecured basis by LMS, GCM and certain of the Company's future restricted subsidiaries, subject to certain Releases. The Company may redeem, at its option, all or part of the January 2022 Notes at any time at a price of 101.406% of face value with call premiums declining to 100% of face value on January 15, 2020 and thereafter plus accrued and unpaid interest to, but not including, the date of redemption.

c. Senior Secured Credit Facility

The Senior Secured Credit Facility matures on April 19, 2023, provided that if either the January 2022 Notes or March 2023 Notes have not been refinanced on or prior to the date (as applicable, the "Early Maturity Date") that is 90 days before their respective stated maturity dates, the Senior Secured Credit Facility will mature on such Early Maturity Date. As of June 30, 2019, the Senior Secured Credit Facility had a maximum credit amount of $2.0 billion, a borrowing base and an aggregate elected commitment of $1.1 billion each, with $235.0 million outstanding and was subject to an interest rate of 3.69%. The Senior Secured Credit Facility contains both financial and non-financial covenants, all of which the Company was in compliance with for all periods presented. Additionally, the Senior Secured Credit Facility provides for the issuance of letters of credit, limited to the lesser of total capacity or $80.0 million. As of June 30, 2019 and December 31, 2018, the Company had one letter of credit outstanding of $14.7 million under the Senior Secured Credit Facility. For additional information see Note 7.d in the 2018 Annual Report. See Note 18.a for discussion of an additional payment on the Senior Secured Credit Facility subsequent to June 30, 2019.

d. Long-term debt, net

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

	June 30, 2019			December 31, 2018		
(in thousands)	**Long-term debt**	**Debt issuance costs, net**	**Long-term debt, net**	**Long-term debt**	**Debt issuance costs, net**	**Long-term debt, net**
January 2022 Notes	$ 450,000	$ (2,522)	$ 447,478	$ 450,000	$ (3,010)	$ 446,990
March 2023 Notes	350,000	(2,952)	347,048	350,000	(3,354)	346,646
Senior Secured Credit Facility(1)	235,000	—	235,000	190,000	—	190,000
Total	$ 1,035,000	$ (5,474)	$ 1,029,526	$ 990,000	$ (6,364)	$ 983,636

(1) Debt issuance costs, net related to our Senior Secured Credit Facility of $6.1 million and $7.0 million as of June 30, 2019 and December 31, 2018, respectively, are reported in "Other noncurrent assets, net" on the unaudited consolidated balance sheets.

Note 6—Stockholders' equity and Equity Incentive Plan

a. Share repurchase program

In February 2018, the Company's board of directors authorized a $200 million share repurchase program commencing in February 2018. The repurchase program expires in February 2020. Share repurchases under the share repurchase program may be made through a variety of methods, which may include open market purchases, privately negotiated transactions and block trades. The timing and actual number of share repurchases will depend upon several factors, including market conditions, business conditions, the trading price of the Company's common stock and the nature of other investment opportunities available to the Company. During the year ended December 31, 2018, the Company repurchased 11,048,742 shares of common stock at a weighted-average price of $8.78 per common share for a total of $97.1 million under this program. All shares were retired upon repurchase. There were no share repurchases under this program during the six months ended June 30, 2019.

b. Treasury stock

Treasury stock is recorded at cost, which includes incremental direct transaction costs, and is retired upon acquisition as a result from (i) share repurchases under the share repurchase program, (ii) stock exchanged to satisfy tax withholding that arises upon the lapse of restrictions on restricted stock awards and the exercise of stock options at the awardee's election and (iii) stock exchanged for cost of exercise of stock options at the awardee's election.

c. Equity Incentive Plan

The Laredo Petroleum, Inc. Omnibus Equity Incentive Plan, as amended and restated as of May 16, 2019 (the "Equity Incentive Plan"), provides for the granting of incentive awards in the form of restricted stock awards, stock option awards, performance share awards, outperformance share awards, performance unit awards and other awards. During the second quarter of 2019, the Company's stockholders approved an amendment to the Equity Incentive Plan, among other items, to increase the maximum number of shares of the Company's common stock issuable under the Equity Incentive Plan from 24,350,000 shares to 29,850,000 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 accounted for as equity awards and are included in "General and administrative" on the unaudited consolidated statements of operations. The Company capitalizes a portion of stock-based compensation for employees who are directly involved in the acquisition, exploration or development of oil and natural gas properties into the full cost pool. Capitalized stock-based compensation is included in "Evaluated properties" on the unaudited consolidated balance sheets. The Company's performance unit awards, granted in 2019, were accounted for as liability awards and included in "General and administrative", net of amounts capitalized, in the unaudited consolidated statements of operations for the three months ended March 31, 2019, and the corresponding liabilities were included in "Other noncurrent liabilities" on the unaudited consolidated balance sheet as of March 31, 2019. Upon their modification during second quarter of 2019, the performance unit awards were converted to performance share awards and the performance unit award compensation was reversed. See "Performance share awards" and "Performance unit awards" below for additional discussion of the modification.

Restricted stock awards

All service vesting restricted stock awards are treated as issued and outstanding in the unaudited consolidated financial statements. Per the award agreement terms, if employment is terminated prior to the restriction lapse date for reasons other than death or disability, the restricted stock awards are forfeited and canceled and are no longer considered issued and outstanding. If the 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 employees vest in a variety of vesting schedules that mainly include (i) 33%, 33% and 34% per year beginning on the first anniversary of the grant date and (ii) fully on the first anniversary of the grant date. Stock awards granted to non-employee directors vest immediately on the grant date. See Note 17 for discussion of the Company's organizational restructuring during the three months ended June 30, 2019.

The following table reflects the restricted stock award activity for the six months ended June 30, 2019:

(in thousands, except for weighted-average grant-date fair value)	Restricted stock awards		Weighted-average grant-date fair value (per award)
Outstanding as of December 31, 2018	4,196	$	9.91
Granted	7,050	$	3.32
Forfeited	(2,811)	$	4.99
Vested[1]	(2,445)	$	9.70
Outstanding as of June 30, 2019	5,990	$	4.55

(1) The total intrinsic value of vested restricted stock awards for the six months ended June 30, 2019 was $9.2 million.

The Company utilizes the closing stock price on the grant date to determine the fair value of restricted stock awards. As of June 30, 2019, unrecognized stock-based compensation related to the restricted stock awards expected to vest was $21.8 million. Such cost is expected to be recognized over a weighted-average period of 2.23 years.

Stock option awards

The following table reflects the stock option award activity for the six months ended June 30, 2019:

(in thousands, except for weighted-average exercise price and weighted-average remaining contractual term)	Stock option awards		Weighted-average exercise price (per award)	Weighted-average remaining contractual term (years)
Outstanding as of December 31, 2018	2,533	$	12.69	5.99
Exercised[1]	(18)	$	4.10	
Expired or canceled	(49)	$	18.45	
Forfeited	(196)	$	8.71	
Outstanding as of June 30, 2019	2,270	$	12.98	3.04
Vested and exercisable as of June 30, 2019[2]	2,096	$	13.34	2.70
Expected to vest as of June 30, 2019[3]	174	$	8.72	7.11

(1) The exercised stock option awards for the six months ended June 30, 2019 had de minimis intrinsic value.

(2) The vested and exercisable stock option awards as of June 30, 2019 had no aggregate intrinsic value.

(3) The expected to vest stock option awards as of June 30, 2019 had no aggregate intrinsic value.

As of June 30, 2019, unrecognized stock-based compensation related to stock option awards expected to vest was $1.1 million. Such cost is expected to be recognized over a weighted-average period of 1.15 years.

See Note 17 for discussion of the Company's organizational restructuring during the three months ended June 30, 2019. See Note 8.c in the 2018 Annual Report for additional information on the stock option awards.

Performance share awards

Performance share awards, which the Company has determined are equity awards, are subject to a combination of market, performance and service vesting criteria. For performance share awards with market criteria or portions of awards with market criteria, which include: (i) the relative three-year total shareholder return comparing the Company's shareholder return to the shareholder return of the peer group specified in each award agreement ("RTSR Performance Percentage"), (ii) the Company's absolute three-year total shareholder return ("ATSR Appreciation") and (iii) the Company's total shareholder return ("TSR"), a Monte Carlo simulation prepared by an independent third party is utilized to determine the grant-date (or modification date) fair value, and the associated expense is recognized on a straight-line basis over the three-year requisite service period of the awards. For portions of awards with performance criteria, which is the Company's three-year return on average capital employed ("ROACE Percentage"), the fair value is equal to the Company's closing stock price on the grant date (or modification date), and for each reporting period, the associated expense fluctuates and is adjusted based on an estimated payout of the number of shares of common stock to be delivered on the payment date for the three-year performance period.

Any shares earned under performance share awards are expected to be issued in the first quarter following the completion of the respective requisite service periods based on the achievement of certain market and performance criteria, and the payout can range from 0% to 200%. Per the award agreement terms, if employment is terminated prior to the restriction lapse date for reasons other than death or disability, the performance share awards are forfeited and canceled. If the termination of employment is by reason of death or disability, and the market and performance criteria are satisfied, then the holder of the earned performance share awards will receive a prorated number of shares based on the number of days the participant was employed with the Company during the performance period. See Note 17 for discussion of the Company's organizational restructuring during the three months ended June 30, 2019.

The following table reflects the performance share award activity for the six months ended June 30, 2019:

(in thousands, except for weighted-average grant-date fair value)	Performance share awards	Weighted-average grant-date fair value (per award)
Outstanding as of December 31, 2018	3,436	$ 13.74
Granted[(1)]	588	$ 2.52
Converted from performance unit awards[(1)(2)]	1,558	$ 3.74
Forfeited	(860)	$ 12.26
Vested[(3)]	(1,545)	$ 17.31
Outstanding as of June 30, 2019	3,177	$ 6.28

(1) The amounts potentially payable in the Company's common stock at the end of the requisite service period for the performance share awards granted on February 28, 2019 and June 3, 2019 will be determined based on three criteria: (i) RTSR Performance Percentage, (ii) ATSR Appreciation and (iii) ROACE Percentage. The RTSR Performance Percentage, ATSR Appreciation and ROACE Percentage will be used to identify the "RTSR Factor," the "ATSR Factor" and the "ROACE Factor," respectively, which are used to compute the "Performance Multiple" and ultimately to determine the number of shares to be delivered on the payment date. In computing the Performance Multiple, the RTSR Factor is given a 25% weight, the ATSR Factor a 25% weight and the ROACE Factor a 50% weight. These awards have a performance period of January 1, 2019 to December 31, 2021.

(2) On May 16, 2019, the board of directors elected to change the form of payment from cash to common stock for the awards granted on February 28, 2019. This change in election triggered modification accounting, and the awards, formerly accounted for as liability awards, were converted to equity awards and, accordingly, new fair values were determined based on the May 16, 2019 modification date.

(3) The performance share awards granted on May 25, 2016 had a performance period of January 1, 2016 to December 31, 2018 and, as their market criteria were not satisfied, resulted in a TSR modifier of 0% based on the Company finishing in the ninth percentile of its peer group for relative TSR. As such, the granted units lapsed and were not converted into the Company's common stock during the first quarter of 2019.

The fair values per performance share award and the assumptions used to estimate these fair values per performance share award granted on February 28, 2019 and June 3, 2019 are as follows:

	February 28, 2019[1]	June 3, 2019
Market criteria:		
(.25) RTSR Factor + (.25) ATSR Factor fair value assumptions:		
Remaining performance period	2.63 years	2.58 years
Risk-free interest rate[2]	2.14%	1.78%
Dividend yield	—%	—%
Expected volatility[3]	55.01%	55.45%
Closing stock price on May 16, 2019 and June 3, 2019 for the respective awards	$ 3.49	$ 2.59
Fair value per performance share award	$ 3.98	$ 2.45
Performance criteria:		
(.50) ROACE Factor fair value assumption:		
Closing stock price on May 16, 2019 and June 3, 2019 for the respective awards	$ 3.49	$ 2.59
Fair value per performance share award	$ 3.49	$ 2.59
Combined fair value per performance share award[4]	$ 3.74	$ 2.52

(1) The fair values of the performance share awards granted on February 28, 2019 are based on the May 16, 2019 modification date. The total incremental compensation expense resulting from the modification of $1.0 million, which will be recognized over the life of the awards, is calculated utilizing (i) the difference between the March 31, 2019 fair value and the May 16, 2019 fair value and (ii) the outstanding quantity of the converted performance share awards as of June 30, 2019. Such expense excludes the estimated payout component for expense for the (.50) ROACE Factor as this is redetermined at each reporting period and the expense will fluctuate accordingly.

(2) The remaining performance period matched zero-coupon risk-free interest rate was derived from the U.S. Treasury constant maturities yield curve on May 16, 2019 and June 3, 2019 for the respective awards.

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

(4) The combined fair value per performance share award is the combination of the fair value per performance share award for weighted for the market and performance criteria for the respective awards.

The expense per performance share award for the outstanding performance share awards as of June 30, 2019 and granted as of the dates presented are as follows:

	February 17, 2017	February 16, 2018	February 28, 2019	June 3, 2019
Market Criteria:				
(.25) RTSR Factor + (.25) ATSR Factor:				
Fair value per performance share award	Not applicable	$ 10.08	$ 3.98	$ 2.45
Expense per performance share award as of June 30, 2019	Not applicable	$ 10.08	$ 3.98	$ 2.45
TSR:				
Fair value per performance share award	$ 18.96			
Expense per performance share award as of June 30, 2019	$ 18.96			
Performance Criteria:				
(.50) ROACE Factor:				
Fair value per performance share award	Not applicable	$ 8.36	$ 3.49	$ 2.59
Estimated payout for expense as of June 30, 2019(1)	Not applicable	60%	195%	195%
Expense per performance share award as of June 30, 2019	Not applicable	$ 5.02	$ 6.81	$ 5.05
Combined expense per performance share award as of June 30, 2019(2)	$ 18.96	$ 7.55	$ 5.40	$ 3.75

(1) As the (.50) ROACE Factor is based on performance criteria, the expense fluctuates based on the estimated payout and is redetermined each reporting period and the life-to-date recognized expense for the respective awards is adjusted accordingly.

(2) The combined expense per performance share award is the combination of the expense per performance share award for market and performance criteria for the respective awards.

As of June 30, 2019, unrecognized stock-based compensation related to the performance share awards expected to vest was $13.3 million. Such cost is expected to be recognized over a weighted-average period of 2.26 years.

Outperformance share award

An outperformance share award was granted during the three months ending June 30, 2019, in conjunction with the appointment of the Company's President, and is accounted for as an equity award. If earned, the payout ranges from 0 to 1,000,000 shares in the Company's common stock per the vesting schedule. This award is subject to a combination of market and service vesting criteria, therefore, a Monte Carlo simulation prepared by an independent third party was utilized to determine the grant-date fair value with the associated expense recognized over the requisite service period. The payout of this award is based on the highest 50 consecutive trading day average closing stock price of the Company that occurs during the performance period that commenced on June 3, 2019 and ends on June 3, 2022 ("Final Date"). Of the earned outperformance shares, one-third of the award will vest on the Final Date, one-third will vest on the first anniversary of the Final Date and one-third will vest on the second anniversary of the Final Date, provided that the participant has been continuously employed with the Company through the applicable vesting date. Per the award agreement terms, if employment is terminated prior to any vesting date for reasons other than death or disability, then any outperformance shares that have not vested as of such date shall be forfeited and canceled. If the participant's employment is terminated prior to any vesting date by reason of death or disability, and the market criteria is satisfied, then the participant will receive a pro-rated number of shares based on the number of days the employee was employed with the Company during the performance period.

The total fair value of the outperformance share award and the assumptions used to estimate the fair value of the outperformance share award as of the grant date presented are as follows:

	June 3, 2019
Performance period	3.00 years
Risk-free interest rate[1]	1.77%
Dividend yield	—%
Expected volatility[2]	55.77%
Closing stock price on grant date	$ 2.59
Total fair value of outperformance share award (in thousands)	$ 670

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

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

As of June 30, 2019, unrecognized stock-based compensation related to the outperformance share award expected to vest was $0.7 million. Such cost is expected to be recognized over a weighted-average period of 5.00 years.

Stock-based compensation expense

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

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2019**	**2018**	**2019**	**2018**
Restricted stock award compensation	$ 2,559	$ 7,286	$ 7,882	$ 13,331
Stock option award compensation	160	971	978	2,040
Performance share award compensation	(3,191)	4,415	(27)	8,742
Outperformance share award compensation	13	—	13	—
Total stock-based compensation, gross	(459)	12,672	8,846	24,113
Less amounts capitalized in evaluated oil and natural gas properties	36	(1,996)	(1,863)	(4,098)
Total stock-based compensation, net	$ (423)	$ 10,676	$ 6,983	$ 20,015

See Note 17 for discussion of the Company's organizational restructuring and the related stock-based compensation reversal during the three months ended June 30, 2019.

Performance unit awards

The performance unit awards, granted on February 28, 2019, were determined to be liability awards due to the board of directors election to settle the awards in cash. On May 16, 2019, the board of directors elected to change the form of payment from cash to common stock and, as a result, the performance unit awards were converted to performance share awards, which the Company determined were now equity awards. This change in election triggered modification accounting, and the performance unit award compensation for the three months ended March 31, 2019 was reversed and a new fair value was determined for the converted performance share awards and adjusted in stock-based compensation based on the May 16, 2019 modification date. For additional discussion of the modification, see "Performance share awards."

The following table reflects the performance unit award activity for the six months ended June 30, 2019:

(in thousands)	**Performance unit awards**
Outstanding as of December 31, 2018	—
Granted	2,813
Forfeited	(1,255)
Converted to performance share awards	(1,558)
Outstanding as of June 30, 2019	—

Note 7—Derivatives

Due to the inherent volatility in oil, NGL and natural gas prices and differences in the prices of oil, NGL and natural gas between where the Company produces and where the Company sells such commodities, the Company engages in derivative transactions, such as puts, swaps, collars and basis swaps to hedge price risk associated with a portion of the Company's anticipated production. By removing a portion of the price volatility associated with future production, the Company expects to mitigate, but not eliminate, the potential effects of variability in cash flows from operations. See Notes 2.f and 9 in the 2018 Annual Report for discussion of the Company's accounting policies for derivatives and information on the transaction types and settlement indexes, respectively.

During the three months ended June 30, 2019, the Company completed a hedge restructuring by early terminating puts and collars and entering into new swaps. The Company paid a net termination amount of $5.4 million that included the full settlement of the deferred premiums associated with these early-terminated puts and collars. The present value of these deferred premiums, classified under Level 3 of the fair value hierarchy, upon their early termination was $7.2 million. See Note 10 in the 2018 Annual Report for information about the fair value hierarchy levels.

The following table details the derivatives that were terminated:

	Aggregate volumes (Bbl)	Weighted-average floor price ($/Bbl)	Weighted-average ceiling price ($/Bbl)	Contract period
Oil puts	5,087,500	$ 46.03	$ —	April 2019 - December 2019
Oil collars	1,134,600	$ 45.00	$ 76.13	January 2020 - December 2020

The following table summarizes open derivative positions as of June 30, 2019, for derivatives that were entered into through June 30, 2019, for the settlement periods presented:

	Remaining year 2019	Year 2020	Year 2021
Oil:			
Puts:			
Volume (Bbl)	644,000	366,000	—
Weighted-average floor price ($/Bbl)	$ 55.00	$ 45.00	$ —
Volume with deferred premium (Bbl)	644,000	—	—
Weighted-average deferred premium price ($/Bbl)	$ 4.39	$ —	$ —
Swaps:			
Volume (Bbl)	3,956,000	7,173,600	—
Weighted-average price ($/Bbl)	$ 61.31	$ 59.50	$ —
Collars:			
Volume (Bbl)	—	—	912,500
Weighted-average floor price ($/Bbl)	$ —	$ —	$ 45.00
Weighted-average ceiling price ($/Bbl)	$ —	$ —	$ 71.00
Totals:			
Total volume with floor price (Bbl)	4,600,000	7,539,600	912,500
Weighted-average floor price ($/Bbl)	$ 60.42	$ 58.79	$ 45.00
Total volume with ceiling price (Bbl)	3,956,000	7,173,600	912,500
Weighted-average ceiling price ($/Bbl)	$ 61.31	$ 59.50	$ 71.00
Basis Swaps:			
WTI Midland to WTI NYMEX:			
Volume (Bbl)	1,840,000	—	—
Weighted-average price ($/Bbl)	$ (2.89)	$ —	$ —
WTI Midland to WTI formula basis:			
Volume (Bbl)	552,000	—	—
Weighted-average price ($/Bbl)	$ (4.37)	$ —	$ —
NGL:			
Swaps - Purity Ethane:			
Volume (Bbl)	1,196,000	366,000	912,500
Weighted-average price ($/Bbl)	$ 14.22	$ 13.60	$ 12.01
Swaps - Non-TET Propane:			
Volume (Bbl)	956,800	1,244,400	730,000
Weighted-average price ($/Bbl)	$ 27.97	$ 26.58	$ 25.52
Swaps - Non-TET Normal Butane:			
Volume (Bbl)	368,000	439,200	255,500
Weighted-average price ($/Bbl)	$ 30.73	$ 28.69	$ 27.72
Swaps - Non-TET Isobutane:			
Volume (Bbl)	92,000	109,800	67,525
Weighted-average price ($/Bbl)	$ 31.08	$ 29.99	$ 28.79
Swaps - Non-TET Natural Gasoline:			
Volume (Bbl)	312,800	402,600	237,250
Weighted-average price ($/Bbl)	$ 45.80	$ 45.15	$ 44.31
Total NGL volume (Bbl)	2,925,600	2,562,000	2,202,775
Natural gas:			
Henry Hub NYMEX Swaps:			
Volume (MMBtu)	19,688,000	23,790,000	14,052,500

TABLE CONTINUES ON NEXT PAGE

	Remaining year 2019	Year 2020	Year 2021
Weighted-average price ($/MMBtu)	$ 3.09	$ 2.72	$ 2.63
Basis Swaps:			
Volume (MMBtu)	19,688,000	32,574,000	23,360,000
Weighted-average price ($/MMBtu)	$ (1.51)	$ (0.76)	$ (0.47)

See Note 8.a for the fair value measurement of derivatives.

Note 8—Fair value measurements

See Note 10 in the 2018 Annual Report for discussion of the Company's accounting policies for fair value measurements.

a. *Fair value measurement on a recurring basis*

The following tables summarize the Company's derivatives' fair value hierarchy by commodity and current and noncurrent assets and liabilities on a gross basis and the net presentation included in "Derivatives" on the unaudited consolidated balance sheets as of the dates presented:

(in thousands)	Level 1	Level 2	Level 3	Total gross fair value	Amounts offset	Net fair value presented on the unaudited consolidated balance sheets
As of June 30, 2019:						
Assets:						
Current:						
Oil derivatives	$ —	$ 27,192	$ —	$ 27,192	$ (9,821)	$ 17,371
NGL derivatives	—	17,134	—	17,134	(1,019)	16,115
Natural gas derivatives	—	26,229	—	26,229	(9,278)	16,951
Oil derivative deferred premiums	—	—	—	—	(3,270)	(3,270)
Noncurrent:						
Oil derivatives	$ —	$ 18,217	$ —	$ 18,217	$ (1,036)	$ 17,181
NGL derivatives	—	4,050	—	4,050	(566)	3,484
Natural gas derivatives	—	6,049	—	6,049	(916)	5,133
Liabilities:						
Current:						
Oil derivatives	$ —	$ (11,618)	$ —	$ (11,618)	$ 9,821	$ (1,797)
NGL derivatives	—	(1,019)	—	(1,019)	1,019	—
Natural gas derivatives	—	(8,954)	—	(8,954)	9,278	324
Oil derivative deferred premiums	—	—	(3,270)	(3,270)	3,270	—
Noncurrent:						
Oil derivatives	$ —	$ (1,036)	$ —	$ (1,036)	$ 1,036	$ —
NGL derivatives	—	(566)	—	(566)	566	—
Natural gas derivatives	—	(916)	—	(916)	916	—
Net derivative asset (liability) positions	$ —	$ 74,762	$ (3,270)	$ 71,492	$ —	$ 71,492

(in thousands)	Level 1	Level 2	Level 3	Total gross fair value	Amounts offset	Net fair value presented on the unaudited consolidated balance sheets
As of December 31, 2018:						
Assets:						
Current:						
Oil derivatives	$ —	$ 44,425	$ —	$ 44,425	$ (7,907)	$ 36,518
NGL derivatives	—	1,974	—	1,974	—	1,974
Natural gas derivatives	—	18,991	—	18,991	(3,267)	15,724
Oil derivative deferred premiums	—	—	—	—	(14,381)	(14,381)
Noncurrent:						
Oil derivatives	$ —	$ 10,626	$ —	$ 10,626	$ —	$ 10,626
NGL derivatives	—	1,024	—	1,024	—	1,024
Natural gas derivatives	—	108	—	108	(728)	(620)
Liabilities:						
Current:						
Oil derivatives	$ —	$ (9,059)	$ —	$ (9,059)	$ 7,907	$ (1,152)
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	(7,290)	—	(7,290)	3,267	(4,023)
Oil derivative deferred premiums	—	—	(16,565)	(16,565)	14,381	(2,184)
Noncurrent:						
Oil derivatives	$ —	$ —	$ —	$ —	$ —	$ —
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	(728)	—	(728)	728	—
Net derivative asset (liability) positions	$ —	$ 60,071	$ (16,565)	$ 43,506	$ —	$ 43,506

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

The Company's deferred premiums associated with its derivative contracts are categorized as Level 3, as the Company utilizes a net present value calculation to determine the valuation. They are considered to be measured on a recurring basis as the derivative contracts they derive from are measured on a recurring basis. As derivative contracts containing deferred premiums are entered into, the Company discounts the associated deferred premium to its net present value at the contract trade date, using the Senior Secured Credit Facility rate at the trade date (input rate), and then records the change in net present value to interest expense over the period from trade until the final settlement date at the end of the contract. After this initial valuation, the input rate of each deferred premium is not adjusted; therefore, significant increases (decreases) in the Senior Secured Credit Facility rate would result in a significantly lower (higher) fair value measurement for each new contract entered into that contained a deferred premium; however, the initial valuation for the deferred premiums already recorded would remain unaffected. While the Company believes the sources utilized to arrive at the fair value estimates are reliable, different sources or methods could have yielded different fair value estimates. The deferred premiums are included in "Derivatives" on the unaudited consolidated balance sheets, and as of June 30, 2019, each of their input rates is 2.31%.

The following table presents payments required for derivative deferred premiums as of June 30, 2019 for the periods presented:

(in thousands)	June 30, 2019
Remaining 2019	$ 2,813
2020	477
Total	$ 3,290

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

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2019	2018	2019	2018
Balance of Level 3 at beginning of period	$ (12,644)	$ (30,292)	$ (16,565)	$ (28,683)
Change in net present value of derivative deferred premiums[1]	(24)	(185)	(119)	(396)
Total purchases and settlements of derivative deferred premiums:				
Purchases	—	—	—	(5,422)
Settlements[2]	9,398	5,451	13,414	9,475
Balance of Level 3 at end of period	$ (3,270)	$ (25,026)	$ (3,270)	$ (25,026)

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

(2) The amounts for the three and six months ended June 30, 2019 include $7.2 million that represents the present value of deferred premiums settled upon their early termination.

See Note 2.f in the 2018 Annual Report for discussion of the Company's accounting policies for derivatives.

b. Items not accounted for at fair value

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

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

	June 30, 2019		December 31, 2018	
(in thousands)	Long-term debt	Fair value[1]	Long-term debt	Fair value[1]
January 2022 Notes	$ 450,000	$ 420,750	$ 450,000	$ 402,885
March 2023 Notes	350,000	327,355	350,000	316,624
Senior Secured Credit Facility	235,000	235,004	190,000	190,054
Total	$ 1,035,000	$ 983,109	$ 990,000	$ 909,563

(1) The fair values of the debt outstanding on the January 2022 Notes and the March 2023 Notes were determined using the June 30, 2019 and December 31, 2018 Level 1 fair value hierarchy quoted market price for each respective instrument. The fair value of the outstanding debt on the Senior Secured Credit Facility as of June 30, 2019 and December 31, 2018 was estimated utilizing the Level 2 fair value hierarchy pricing model for similar instruments. See Note 10 in the 2018 Annual Report for information about the fair value hierarchy levels.

Note 9—Net income per common share

Basic net income per common share is computed by dividing net income by the weighted-average common shares outstanding for the period. Diluted net income per common share reflects the potential dilution of non-vested restricted stock awards, outstanding stock option awards, non-vested performance share awards and the non-vested outperformance share award. See Note 6.c for additional discussion of these awards. The dilutive effects of these awards were calculated utilizing the treasury stock method.

The following table reflects the calculations of diluted weighted-average common shares outstanding and basic and diluted net income per common share for the periods presented:

(in thousands, except for per share data)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Net income (numerator):				
Net income—basic and diluted	$ 173,382	$ 33,452	$ 163,891	$ 119,972
Weighted-average common shares outstanding (denominator):				
Basic[(1)]	231,406	230,933	230,943	234,561
Dilutive non-vested restricted stock awards[(2)]	151	683	782	885
Dilutive outstanding stock option awards[(3)]	—	90	—	55
Diluted	231,557	231,706	231,725	235,501
Net income per common share:				
Basic	$ 0.75	$ 0.14	$ 0.71	$ 0.51
Diluted	$ 0.75	$ 0.14	$ 0.71	$ 0.51

(1) Weighted-average common shares outstanding used in the calculation of basic and diluted net income per common share was computed taking into account share repurchases that occurred during the three and six months ended June 30, 2018. See Note 6.a for additional discussion of the Company's share repurchase program.

(2) The effect of a significant portion of the non-vested restricted stock awards was excluded from the calculation of diluted net income per common share for the three and six months ended June 30, 2019. The inclusion of these non-vested restricted stock awards would be anti-dilutive mainly due to the grant-date fair value per common share for the awards being greater than the average closing stock price during the period.

(3) The effect of the outstanding stock option awards was excluded from the calculation of diluted net income per common share for the three and six months ended June 30, 2019. The inclusion of these stock option awards would be anti-dilutive as their exercise prices were greater than the average closing stock price during the period.

By assuming June 30, 2019 was the end of the respective performance periods of the non-vested performance share awards and the non-vested outperformance share award, the effects of these awards were excluded from the calculation of diluted net income per common share for the three and six months ended June 30, 2019, as the awards were below the respective agreements' payout thresholds, with the exception of the RTSR Performance Percentage-portion of the 2019 performance share awards, which was ultimately anti-dilutive due to the grant-date fair value per unit being greater than the average closing stock price during the periods. See Note 6.c for discussion of the performance and market criteria of these awards.

See Note 10 in the second-quarter 2018 Quarterly Report for discussion of the awards excluded from the calculation of diluted net income per common share for the three and six months ended June 30, 2018.

Note 10—Commitments and contingencies

a. Litigation

From time to time, the Company is subject to various legal proceedings arising in the ordinary course of business, including proceedings for which the Company may not have insurance coverage. While many of these matters involve inherent uncertainty, as of the date hereof, the Company does not currently believe that any such legal proceedings will have a material adverse effect on the Company's business, financial position, results of operations or liquidity. During the three months ended June 30, 2019, the Company finalized and received a favorable settlement of $42.5 million in connection with the Company's damage claims asserted in a previously disclosed litigation matter relating to a breach and wrongful termination of a crude oil purchase agreement. This settlement is included in "Litigation settlement" on the unaudited consolidated statements of operations. The Company does not anticipate the receipt of further payments in connection with this matter as this settlement constituted a full and final satisfaction of the Company's claims.

b. Drilling contracts

The Company has committed to drilling rig contracts with third parties to facilitate the Company's drilling plans. Certain of these contracts are for terms of multiple months and contain early termination clauses that require the Company to potentially pay penalties to the third party should the Company cease drilling efforts. These penalties would negatively impact the

Company's financial statements upon early contract termination. There were no penalties incurred for early contract termination for either of the six months ended June 30, 2019 or 2018. As the Company's current drilling rig contracts are considered leases under the scope of ASC 842, the present value of the future commitment as of June 30, 2019 related to drilling contracts with an initial term greater than 12 months is included in "Operating lease liabilities" under "Current liabilities" on the unaudited consolidated balance sheet as of June 30, 2019. See Note 3.a for further discussion of the impact of ASC 842 adoption. Management does not currently anticipate the early termination of these contracts in 2019.

c. Firm sale and transportation commitments

The Company has committed to deliver, for sale or transportation, fixed volumes of product under certain contractual arrangements that specify the delivery of a fixed and determinable quantity. If not fulfilled, the Company is subject to firm transportation payments on excess pipeline capacity and other contractual penalties. These commitments are normal and customary for the Company's business. In certain instances, the Company has used spot market purchases to meet its commitments in certain locations or due to favorable pricing. Management anticipates continuing this practice in the future. The Company incurred firm transportation payments on excess pipeline capacity and other contractual penalties of $0.5 million and $2.2 million during the three months ended June 30, 2019 and 2018, respectively, and $1.0 million and $2.3 million during the six months ended June 30, 2019 and 2018, respectively. These firm transportation payments on excess pipeline capacity and other contractual penalties are netted with the respective revenue stream in the unaudited consolidated statements of operations. Future commitments of $341.5 million as of June 30, 2019 are not recorded in the unaudited consolidated balance sheets.

d. Federal and state regulations

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

e. Environmental

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, among other things, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed in the period incurred. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment or remediation is probable and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments is fixed and readily determinable. Management believes no materially significant liabilities of this nature existed as of June 30, 2019 or December 31, 2018.

Note 11—Supplemental cash flow and non-cash information

The following table presents supplemental cash flow and non-cash information:

	Six months ended June 30,	
(in thousands)	**2019**	**2018**
Supplemental cash flow information:		
Capitalized interest	$ (420)	$ (498)
Cash received (paid) for income taxes[(1)]	$ 691	$ (1,136)
Supplemental non-cash investing information:		
Increase (decrease) in accrued capital expenditures	$ 2,335	$ (8,878)
Capitalized stock-based compensation in evaluated oil and natural gas properties	$ 1,863	$ 4,098
Capitalized asset retirement costs	$ 356	$ 577

(1) See Note 14 for additional discussion of the Company's income taxes.

The following table presents supplemental non-cash adjustments information related to leases:

(in thousands)	Six months ended June 30, 2019
Right-of-use assets obtained in exchange for operating lease liabilities[1]	$ 25,212

(1) See Note 3 for additional discussion of the Company's leases.

Note 12—Asset retirement obligations

See Note 2.k in the 2018 Annual Report for discussion of the Company's accounting policies for asset retirement obligations.

The following table reconciles the Company's asset retirement obligation liability associated with tangible long-lived assets for the periods presented:

	Six months ended June 30,	
(in thousands)	2019	2018
Liability at beginning of period	$ 56,882	$ 55,506
Liabilities added due to acquisitions, drilling, midstream service asset construction and other	356	577
Accretion expense	2,072	2,227
Liabilities settled due to plugging and abandonment or removed due to sale	(1,362)	(1,815)
Liability at end of period	$ 57,948	$ 56,495

Note 13—Revenue recognition

a. Impact of ASC 606 adoption on the Medallion Sale

Medallion Gathering & Processing, LLC, a Texas limited liability company formed on October 12, 2012, which, together with its wholly-owned subsidiaries (collectively, "Medallion"), was established for the purpose of developing midstream solutions and providing midstream infrastructure to bring oil to market in the Midland Basin. Prior to the Medallion Sale (defined below), LMS held 49% of Medallion's ownership units. On October 30, 2017, LMS, together with Medallion Midstream Holdings, LLC, which is owned and controlled by an affiliate of the third-party interest-holder, The Energy & Minerals Group, completed the sale of 100% of the ownership interests in Medallion to an affiliate of Global Infrastructure Partners ("GIP"), for cash consideration of $1.825 billion (the "Medallion Sale"). LMS' total net cash proceeds before taxes for its 49% ownership interest in Medallion were $831.3 million.

LMS has a Transportation Services Agreement (the "TA") with a wholly-owned subsidiary of Medallion under which LMS receives firm transportation of the Company's crude oil production from Reagan County and Glasscock County in Texas to Colorado City, Texas that continues to be in effect after the Medallion Sale. At December 31, 2017, the Medallion Sale was accounted for under the real estate guidance in ASC 360-20, *Property, Plant, and Equipment* ("ASC 360-20"), and the Company's maximum exposure to loss associated with future commitments under the TA was $141.1 million that was not recorded in the Company's unaudited consolidated balance sheets. Under ASC 360-20, as a result of the Company's continuing involvement with Medallion by guaranteeing cash flows under the TA, the Company recorded a deferred gain in the amount of its maximum exposure to loss related to such guarantees. This deferred gain would have been amortized over the TA's firm commitment transportation term through 2024 had the Company not adopted ASC 606, *Revenue from Contracts with Customers* ("ASC 606") on January 1, 2018.

In adopting ASC 606, the guidance in ASC 360-20 was superseded by ASC 860, *Transfers and Servicing* ("ASC 860"). The Medallion Sale is within the scope of ASC 860 and qualifies for sale accounting and recognition of the previously deferred gain because as of the date of the Medallion Sale (i) the Company transferred and legally isolated its full interests in Medallion to GIP, (ii) GIP received the right to pledge or exchange Medallion ownership interests at its full discretion and (iii) the Company did not have effective control over Medallion. Therefore, the deferred gain of $141.1 million was recognized as an adjustment to the 2018 beginning balance of accumulated deficit, presented on the unaudited consolidated statements of stockholders' equity, in accordance with the modified retrospective approach of adoption. See Notes 4.c and 5.a in the 2018 Annual Report for further discussion of the Medallion Sale, the TA and the adoption of ASC 606.

b. Revenue recognition

Oil, NGL and natural gas revenues are generally recognized at the point in time that control of the product is transferred to the customer. Midstream service revenues are generated through fees for products and services that need to be delivered by midstream infrastructure, including oil and liquids-rich natural gas gathering services as well as rig fuel, natural gas lift and water delivery, recycling and takeaway and are recognized over time as the customer benefits from these services when provided. A more detailed summary of the underlying contracts that give rise to the Company's revenue and method of recognition can be found in Note 5.b in the 2018 Annual Report.

Note 14—Income taxes

The Company is subject to federal and state income taxes and the Texas franchise tax. The Company had federal net operating loss carryforwards totaling $1.9 billion and state of Oklahoma net operating loss carryforwards totaling $35.4 million as of June 30, 2019, which begin expiring in 2026 and 2032, respectively. Due to the enactment of Public Law No. 115-97, a comprehensive tax reform bill commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), $180.7 million of the federal net operating loss carryforward will not expire but may be limited in future periods. As of June 30, 2019, the Company believes it is more likely than not that a portion of the net operating loss carryforwards are not fully realizable. The Company continues to consider new evidence, both positive and negative, in determining whether, based on the weight of that evidence, a valuation allowance is needed. Such consideration includes projected future cash flows from its oil, NGL and natural gas reserves (including the timing of those cash flows), the reversal of deferred tax liabilities recorded as of June 30, 2019, the Company's ability to capitalize intangible drilling costs, rather than expensing these costs in order to prevent an operating loss carryforward from expiring unused and future projections of Oklahoma sourced income. As of June 30, 2019, a total valuation allowance of $202.1 million has been recorded against the net deferred tax asset, resulting in a net Texas deferred tax liability of $6.7 million, which is included in "Other noncurrent liabilities" on the unaudited consolidated balance sheets.

The Company paid Alternative Minimum Tax ("AMT") related to the Medallion Sale in 2017. The payment of AMT creates an AMT credit carryforward. Due to changes in the Tax Act, AMT credit carryforwards do not expire and are now refundable over a five-year period. Therefore, as of June 30, 2019, a receivable has been recorded in the amount of $4.1 million, of which $3.1 million is included in "Accounts receivable, net" and $1.0 million is included in "Other noncurrent assets, net" on the unaudited consolidated balance sheets.

Note 15—Related party

Laredo's Chairman and Chief Executive Officer is on the board of directors of Helmerich & Payne, Inc. ("H&P"). The Company has drilling contracts with H&P that are long-term and short-term operating leases. The drilling contract, which is accounted for as a long-term operating lease under the scope of ASC 842 due to its initial term that was greater than 12 months, is capitalized and is included in "Operating lease right-of-use-assets" on the unaudited consolidated balance sheet. The present value of the future commitment is included in "Operating lease liabilities" under "Current liabilities" on the unaudited consolidated balance sheet. See Note 3 for additional discussion of the Company's adoption of ASC 842.

The following table presents the operating lease liability related to H&P included in the unaudited consolidated balance sheet:

(in thousands)	June 30, 2019
Operating lease liabilities	$ 5,762

The following table presents the capital expenditures for oil and natural gas properties paid to H&P included in the unaudited consolidated statements of cash flows:

	Six months ended June 30,	
(in thousands)	2019	2018
Capital expenditures for oil and natural gas properties	$ 6,293	$ —

Note 16—Subsidiary Guarantors

The Guarantors have fully and unconditionally guaranteed the January 2022 Notes, the March 2023 Notes and the Senior Secured Credit Facility, subject to the Releases. In accordance with practices accepted by the SEC, Laredo has prepared condensed consolidating financial statements to quantify the balance sheets, results of operations and cash flows of such subsidiaries as subsidiary Guarantors. The following unaudited condensed consolidating (i) balance sheets as of June 30, 2019 and December 31, 2018, (ii) statements of operations for the three and six months ended June 30, 2019 and 2018 and (iii) statements of cash flows for the six months ended June 30, 2019 and 2018 present financial information for Laredo on a stand-alone basis (carrying any investment in subsidiaries under the equity method), financial information for the subsidiary Guarantors on a stand-alone basis and the consolidation and elimination entries necessary to arrive at the financial information for the Company on a condensed consolidated basis. Income taxes for LMS and for GCM are recorded on Laredo's balance sheets, statements of operations and statements of cash flows as they are disregarded entities for income tax purposes. Laredo and the Guarantors are not restricted from making intercompany distributions to each other.

Condensed consolidating balance sheet
June 30, 2019

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Accounts receivable, net	$ 66,348	$ 10,262	$ —	$ 76,610
Other current assets	114,653	1,252	—	115,905
Oil and natural gas properties, net	2,217,151	9,041	(26,024)	2,200,168
Midstream service assets, net	—	131,633	—	131,633
Other fixed assets, net	37,910	23	—	37,933
Investment in subsidiaries	139,071	—	(139,071)	—
Other noncurrent assets, net	54,172	3,501	—	57,673
Total assets	$ 2,629,305	$ 155,712	$ (165,095)	$ 2,619,922
Accounts payable and accrued liabilities	$ 37,841	$ 13,448	$ —	$ 51,289
Other current liabilities	118,739	650	—	119,389
Long-term debt, net	1,029,526	—	—	1,029,526
Other noncurrent liabilities	72,854	2,543	—	75,397
Total stockholders' equity	1,370,345	139,071	(165,095)	1,344,321
Total liabilities and stockholders' equity	$ 2,629,305	$ 155,712	$ (165,095)	$ 2,619,922

Condensed consolidating balance sheet
December 31, 2018

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Accounts receivable, net	$ 83,424	$ 10,897	$ —	$ 94,321
Other current assets	97,045	1,386	—	98,431
Oil and natural gas properties, net	2,043,009	9,113	(22,551)	2,029,571
Midstream service assets, net	—	130,245	—	130,245
Other fixed assets, net	39,751	68	—	39,819
Investment in subsidiaries	128,380	—	(128,380)	—
Other noncurrent assets, net	23,783	4,135	—	27,918
Total assets	$ 2,415,392	$ 155,844	$ (150,931)	$ 2,420,305
Accounts payable and accrued liabilities	$ 54,167	$ 15,337	$ —	$ 69,504
Other current liabilities	121,297	9,664	—	130,961
Long-term debt, net	983,636	—	—	983,636
Other noncurrent liabilities	59,511	2,463	—	61,974
Total stockholders' equity	1,196,781	128,380	(150,931)	1,174,230
Total liabilities and stockholders' equity	$ 2,415,392	$ 155,844	$ (150,931)	$ 2,420,305

Condensed consolidating statement of operations
For the three months ended June 30, 2019

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	$ 184,037	$ 49,251	$ (16,645)	$ 216,643
Total costs and expenses	127,310	46,175	(14,670)	158,815
Operating income	56,727	3,076	(1,975)	57,828
Interest expense	(15,765)	—	—	(15,765)
Other non-operating income, net	136,146	292	(3,368)	133,070
Income before income taxes	177,108	3,368	(5,343)	175,133
Total income tax expense	(1,751)	—	—	(1,751)
Net income	$ 175,357	$ 3,368	$ (5,343)	$ 173,382

Condensed consolidating statement of operations
For the three months ended June 30, 2018

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	$ 208,624	$ 163,021	$ (20,599)	$ 351,046
Total costs and expenses	115,602	158,433	(17,756)	256,279
Operating income	93,022	4,588	(2,843)	94,767
Interest expense	(14,424)	—	—	(14,424)
Other non-operating expense, net	(42,303)	(1,025)	(3,563)	(46,891)
Income before income taxes	36,295	3,563	(6,406)	33,452
Total income tax	—	—	—	—
Net income	$ 36,295	$ 3,563	$ (6,406)	$ 33,452

Condensed consolidating statement of operations
For the six months ended June 30, 2019

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	$ 357,558	$ 103,583	$ (35,551)	$ 425,590
Total costs and expenses	247,045	98,398	(32,078)	313,365
Operating income	110,513	5,185	(3,473)	112,225
Interest expense	(31,312)	—	—	(31,312)
Other non-operating income, net	89,818	385	(5,570)	84,633
Income before income taxes	169,019	5,570	(9,043)	165,546
Total income tax expense	(1,655)	—	—	(1,655)
Net income	$ 167,364	$ 5,570	$ (9,043)	$ 163,891

Condensed consolidating statement of operations
For the six months ended June 30, 2018

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	$ 406,449	$ 239,321	$ (35,028)	$ 610,742
Total costs and expenses	221,290	232,997	(31,504)	422,783
Operating income	185,159	6,324	(3,524)	187,959
Interest expense	(27,942)	—	—	(27,942)
Other non-operating expense, net	(33,721)	(1,281)	(5,043)	(40,045)
Income before income taxes	123,496	5,043	(8,567)	119,972
Total income tax	—	—	—	—
Net income	$ 123,496	$ 5,043	$ (8,567)	$ 119,972

Condensed consolidating statement of cash flows
For the six months ended June 30, 2019

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Net cash provided by operating activities	$ 266,522	$ 317	$ (5,570)	$ 261,269
Capital expenditures and other, net	(298,227)	(317)	5,570	(292,974)
Net cash provided by financing activities	42,354	—	—	42,354
Net increase in cash and cash equivalents	10,649	—	—	10,649
Cash and cash equivalents, beginning of period	45,150	1	—	45,151
Cash and cash equivalents, end of period	$ 55,799	$ 1	$ —	$ 55,800

Condensed consolidating statement of cash flows
For the six months ended June 30, 2018

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Net cash provided by operating activities	$ 254,991	$ 12,653	$ (5,043)	$ 262,601
Capital expenditures and other, net	(346,462)	(12,653)	5,043	(354,072)
Net cash provided by financing activities	15,916	—	—	15,916
Net decrease in cash and cash equivalents	(75,555)	—	—	(75,555)
Cash and cash equivalents, beginning of period	112,158	1	—	112,159
Cash and cash equivalents, end of period	$ 36,603	$ 1	$ —	$ 36,604

Note 17—Organizational restructuring

On April 2, 2019, the Company announced the retirement of two of its Senior Officers. Additionally, on April 8, 2019 (the "Effective Date"), the Company committed to a company-wide reorganization effort (the "Plan") that included a workforce reduction of approximately 20%, which included an Executive Officer. The reduction in workforce was communicated to employees on the Effective Date and implemented immediately, subject to certain administrative procedures. The Company's board of directors approved the Plan in response to recent market conditions and to reduce costs and better position the Company for the future. In connection with the retirements on April 2, 2019 and with the Plan, the Company incurred $10.4 million of one-time charges during the three months ended June 30, 2019 comprising of compensation, taxes, professional fees, outplacement and insurance-related expenses. All stock-based compensation awards held by the two Senior Officers, the Executive Officer and the employees who were affected by the Plan were forfeited and the corresponding stock-based compensation totaling $6.1 million was reversed. See Note 6.c for additional information on the associated forfeiture activity.

Note 18—Subsequent events

On July 31, 2019, the Company paid $20.0 million on the Senior Secured Credit Facility. As a result, the outstanding balance under the Senior Secured Credit Facility was $215.0 million as of July 31, 2019.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and condensed notes thereto included elsewhere in this Quarterly Report as well as our audited consolidated financial statements and notes thereto included in our 2018 Annual Report. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. Please see "Cautionary Statement Regarding Forward-Looking Statements." Except for purposes of the unaudited consolidated financial statements and condensed notes thereto included elsewhere in this Quarterly Report, references in this Quarterly Report to "Laredo," "we," "us," "our" or similar terms refer to Laredo, LMS and GCM collectively, unless the context otherwise indicates or requires. All amounts, dollars and percentages presented in this Quarterly Report are rounded and therefore approximate.

Executive overview

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

Our financial and operating performance for the three months ended June 30, 2019 included the following:

- Oil sales volumes of 2,771 MBbl, compared to 2,514 MBbl for the three months ended June 30, 2018, a 10% increase over the comparative period;
- Oil, NGL and natural gas sales of $183.9 million, compared to $208.6 million for the three months ended June 30, 2018, which is the result of a 28% decrease in average sales price per BOE and was partially offset by a 22% increase in MBOE volumes sold;
- Net income of $173.4 million, compared to $33.5 million for the three months ended June 30, 2018; and
- Adjusted EBITDA (a non-GAAP financial measure) of $153.2 million, compared to $152.5 million for the three months ended June 30, 2018. See page 44 for a discussion and reconciliation of Adjusted EBITDA.

Our financial and operating performance for the six months ended June 30, 2019 included the following:

- Oil sales volumes of 5,305 MBbl, compared to 4,953 MBbl for the six months ended June 30, 2018, a 7% increase over the comparative period;
- Oil, NGL and natural gas sales of $357.2 million, compared to $406.0 million for the six months ended June 30, 2018, which is the result of a 27% decrease in average sales price per BOE and was partially offset by a 21% increase in MBOE volumes sold;
- Net income of $163.9 million, compared to $120.0 million for the six months ended June 30, 2018; and
- Adjusted EBITDA (a non-GAAP financial measure) of $276.1 million, compared to $295.9 million for the six months ended June 30, 2018. See page 44 for a discussion and reconciliation of Adjusted EBITDA.

Recent developments

Potential future low commodity price impact on our third-quarter 2019 full cost ceiling impairment test

Oil, NGL and natural gas prices have remained low in the third quarter of 2019. If prices remain at or below the current levels, subject to numerous factors and inherent limitations, some of which are discussed below, and all other factors remain constant, we will incur a non-cash full cost ceiling impairment in the third quarter of 2019, which will have an adverse effect on our results of operations.

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

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

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

Our hypothetical third-quarter 2019 full cost ceiling calculation has been prepared by substituting (i) $53.01 per Bbl for oil, (ii) $14.86 per Bbl for NGL and (iii) $0.48 per Mcf for natural gas (collectively, the "Pro Forma Third-Quarter Prices") for the respective Realized Prices as of June 30, 2019. All other inputs and assumptions have been held constant. Accordingly, this estimation strictly isolates the estimated impact of low commodity prices on the third-quarter 2019 Realized Prices that will be utilized in our full cost ceiling calculation. The Pro Forma Third-Quarter Prices use a slightly modified Realized Price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for oil, NGL and natural gas for the 10 months ended July 1, 2019 and holding the July 26, 2019 prices constant for the remaining eleventh and twelfth months of the calculation. Based solely on the substitution of the Pro Forma Third-Quarter Prices into our June 30, 2019 reserve estimates, the implied third-quarter impairment would be $300 million. We believe that substituting these prices into our June 30, 2019 reserve estimates may help provide users with an understanding of the potential impact on our third-quarter 2019 full cost ceiling test.

See "Part I, Item 1A. Risk Factors—Risks related to our business—As a result of the volatility in prices for oil, NGL and natural gas, we have taken and may be required to take further write-downs of the carrying values of our properties" in our 2018 Annual Report.

Core area of operations

The oil and liquids-rich Permian Basin is characterized by multiple target horizons, long-lived reserves, high drilling success rates and high initial production rates. As of June 30, 2019, we had assembled 122,787 net acres in the Permian Basin.

Pricing and reserves

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

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

The Realized Prices utilized to value our reserves as of June 30, 2019 and June 30, 2018, were $55.69 per Bbl for oil, $18.64 per Bbl for NGL and $0.70 per Mcf for natural gas, and $55.36 per Bbl for oil, $19.15 per Bbl for NGL and $1.80 per Mcf for natural gas, respectively. The Realized Prices used to estimate proved reserves do not include derivative transactions. The unamortized cost of our evaluated oil and natural gas properties did not exceed the full cost ceiling amount as of June 30, 2019 or June 30, 2018. See Note 4 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for discussion of our full cost method of accounting.

Horizontal drilling of unconventional wells using enhanced completions techniques, including, but not limited to, hydraulic fracturing, is a relatively new process and, as such, forecasting the long-term production of such wells is inherently uncertain and subject to varying interpretations. As we receive and process geological and production data from these wells over time, we analyze such data to confirm whether previous assumptions regarding original forecasted production and reserves continue to appear accurate or require modification. While all production forecasts have elements of uncertainty over the life of the related wells, we are seeing indications that the oil portion of such reserves may be less than originally anticipated and the decline curves may be steeper than originally anticipated.

Initial production results, production decline rates, well density, completion design and operating method are examples of the numerous uncertainties and variables inherent in the estimation of proved reserves in future periods. The quantity of proved reserves is one of the many variables inherent in the calculation of depletion.

The table below presents our depletion expense for our evaluated oil and natural gas properties per BOE sold for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Depletion expense per BOE sold	$ 8.27	$ 7.68	$ 8.51	$ 7.52

Sources of our revenue

Our revenues are derived from the sale of produced oil, NGL and natural gas, the sale of purchased oil and providing midstream services to third parties, all within the continental United States and do not include the effects of derivatives. Our oil, NGL and natural gas revenues may vary significantly from period to period as a result of changes in volumes of production, pricing differentials and/or changes in commodity prices. Our sales of purchased oil revenue may vary due to changes in oil prices, pricing differentials and the amount of volumes purchased. Our midstream service revenues may vary due to oil throughput fees and the level of services provided to third parties for (i) oil and natural gas gathering and transportation systems and related facilities, (ii) natural gas lift, rig fuel and centralized compression infrastructure and (iii) water storage, recycling and transportation infrastructure. See Notes 2.n and 5.b to our consolidated financial statements in our 2018 Annual Report for additional information regarding our revenue recognition policies.

The following table presents our sources of revenue as a percentage of total revenues:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Oil sales	74%	45%	68%	51%
NGL sales	10%	10%	13%	10%
Natural gas sales	1%	4%	3%	5%
Midstream service revenues	1%	1%	1%	1%
Sales of purchased oil	14%	40%	15%	33%
Total	100%	100%	100%	100%

Results of operations

For the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018

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

The following table presents information regarding our oil, NGL and natural gas sales volumes, revenues and average sales prices:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Sales volumes:				
Oil (MBbl)	2,771	2,514	5,305	4,953
NGL (MBbl)	2,200	1,778	4,299	3,341
Natural gas (MMcf)	15,092	10,947	27,941	21,120
Oil equivalents (MBOE)(1)(2)	7,485	6,116	14,260	11,814
Average daily sales volumes (BOE/D)(2)	82,259	67,206	78,787	65,270
% Oil(2)	37%	41%	37%	42%
Sales revenues (in thousands):				
Oil	$ 160,030	$ 159,051	$ 289,201	$ 309,965
NGL	22,197	36,805	54,432	65,165
Natural gas	1,636	12,705	13,606	30,865
Total oil, NGL and natural gas sales revenues	$ 183,863	$ 208,561	$ 357,239	$ 405,995
Average sales prices(2):				
Oil, without derivatives ($/Bbl)(3)	$ 57.76	$ 63.26	$ 54.52	$ 62.58
NGL, without derivatives ($/Bbl)(3)	$ 10.09	$ 20.71	$ 12.66	$ 19.51
Natural gas, without derivatives ($/Mcf)(3)	$ 0.11	$ 1.16	$ 0.49	$ 1.46
Average sales price, without derivatives ($/BOE)(3)	$ 24.56	$ 34.10	$ 25.05	$ 34.37
Oil, with derivatives ($/Bbl)(4)	$ 56.65	$ 58.71	$ 52.36	$ 58.62
NGL, with derivatives ($/Bbl)(4)	$ 12.82	$ 20.07	$ 14.04	$ 19.15
Natural gas, with derivatives ($/Mcf)(4)	$ 1.17	$ 1.72	$ 1.14	$ 1.78
Average sales price, with derivatives ($/BOE)(4)	$ 27.09	$ 33.04	$ 25.94	$ 33.18

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

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

(3) Actual prices received when control passes to the purchaser/customer adjusted for quality, transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the wellhead.

(4) Price reflects the after-effects of our derivative transactions on our average sales prices. Our calculation of such after-effects includes settlements of matured derivatives during the respective periods in accordance with GAAP and an adjustment to reflect premiums incurred previously or upon settlement that are attributable to derivatives that settled during the respective periods.

The following table presents settlements received (paid) for matured derivatives and premiums paid previously or upon settlement attributable to derivatives that matured during the periods utilized in our calculation of the average sales prices with derivatives presented above:

(in thousands)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Settlements received (paid) for matured derivatives:				
Oil	$ 1,481	$ (5,608)	$ (614)	$ (9,344)
NGL	5,998	(1,147)	5,941	(1,194)
Natural gas	16,001	6,936	18,255	8,483
Total	$ 23,480	$ 181	$ 23,582	$ (2,055)
Premiums paid previously or upon settlement attributable to derivatives that matured during the respective period:				
Oil	$ (4,541)	$ (5,838)	$ (10,841)	$ (10,241)
Natural gas	—	(845)	—	(1,686)
Total	$ (4,541)	$ (6,683)	$ (10,841)	$ (11,927)

Changes in average sales prices without derivatives and sales volumes caused the following changes to our oil, NGL and natural gas revenues between the three months ended June 30, 2019 and 2018:

(in thousands)	Oil	NGL	Natural gas	Total net effect of change
2018 Revenues	$ 159,051	$ 36,805	$ 12,705	$ 208,561
Effect of changes in average sales prices	(15,257)	(23,358)	(15,880)	(54,495)
Effect of changes in sales volumes	16,236	8,750	4,811	29,797
2019 Revenues	$ 160,030	$ 22,197	$ 1,636	$ 183,863

Changes in average sales prices without derivatives and sales volumes caused the following changes to our oil, NGL and natural gas revenues between the six months ended June 30, 2019 and 2018:

(in thousands)	Oil	NGL	Natural gas	Total net effect of change
2018 Revenues	$ 309,965	$ 65,165	$ 30,865	$ 405,995
Effect of changes in average sales prices	(42,750)	(29,430)	(27,228)	(99,408)
Effect of changes in sales volumes	21,986	18,697	9,969	50,652
2019 Revenues	$ 289,201	$ 54,432	$ 13,606	$ 357,239

Oil sales revenue. Our oil sales revenue is a function of oil production volumes sold and average oil sales prices received for those volumes. The increase in oil sales revenue of $1.0 million, or 1%, for the three months ended June 30, 2019 as compared to the same period in 2018 is due to a 10% increase in oil sales volumes and was offset by a 9% decrease in average oil sales prices.

The decrease in oil sales revenue of $20.8 million, or 7%, for the six months ended June 30, 2019 as compared to the same period in 2018 is due to a 13% decrease in average oil sales prices and was partially offset by a 7% increase in oil sales volumes.

NGL sales revenue. Our NGL sales revenue is a function of NGL production volumes sold and average NGL sales prices received for those volumes. The decrease in NGL sales revenue of $14.6 million, or 40%, for the three months ended June 30, 2019 as compared to the same period in 2018 is due to a 51% decrease in average NGL sales prices and was partially offset by a 24% increase in NGL sales volumes.

The decrease in NGL sales revenue of $10.7 million, or 16%, for the six months ended June 30, 2019 as compared to the same period in 2018 is due to a 35% decrease in average NGL sales prices and was partially offset by a 29% increase in NGL sales volumes.

Natural gas sales revenue. Our natural gas sales revenue is a function of natural gas production volumes sold and average natural gas sales prices received for those volumes. The decrease in natural gas sales revenue of $11.1 million, or 87%, for the three months ended June 30, 2019 as compared to the same period in 2018 is due to a 91% decrease in average natural gas sales prices and was partially offset by a 38% increase in natural gas sales volumes.

The decrease in natural gas sales revenue of $17.3 million, or 56%, for the six months ended June 30, 2019 as compared to the same period in 2018 is due to a 66% decrease in average natural gas sales prices and was partially offset by a 32% increase in natural gas sales volumes.

The following table presents midstream service and sales of purchased oil revenues:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2019**	**2018**	**2019**	**2018**
Midstream service revenues	$ 2,610	$ 1,976	$ 5,493	$ 4,335
Sales of purchased oil	$ 30,170	$ 140,509	$ 62,858	$ 200,412

Midstream service revenues. Our midstream service revenues increased by $0.6 million, or 32%, and by $1.2 million, or 27%, for the three and six months ended June 30, 2019, respectively, as compared to the same periods in 2018. These revenues fluctuate and will vary due to oil throughput fees and the level of services provided to third parties.

Sales of purchased oil. These revenues are a function of the volumes and prices of purchased oil sold to customers and are offset by the costs of purchased oil. Sales of purchased oil decreased by $110.3 million, or 79%, and by $137.6 million, or 69%, for the three and six months ended June 30, 2019, respectively, as compared to the same periods in 2018 mainly due to decreases in the volumes of purchased oil sold. During the three months ended June 30, 2018, our volume of purchased oil sold to customers increased by 131%, as compared to the same period in 2017. This second-quarter 2018 increase in the volume of purchased oil sold declined to levels typical of previous periods in the third quarter of 2018.

We enter into purchase transactions with third parties and separate sale transactions. These transactions are presented on a gross basis as we act as the principal in the transaction by assuming control of the commodities purchased and the responsibility to deliver the commodities sold. Revenue is recognized when control transfers to the purchaser/customer at the delivery point based on the price received. The transportation costs associated with these transactions are presented as a component of costs of purchased oil. See "—Costs and expenses - Costs of purchased oil."

Costs and expenses

The following table presents information regarding costs and expenses and selected average costs and expenses per BOE sold:

	Three months ended June 30,		Six months ended June 30,	
(in thousands except for per BOE sold data)	**2019**	**2018**	**2019**	**2018**
Costs and expenses:				
Lease operating expenses	$ 23,632	$ 22,642	$ 46,241	$ 44,593
Production and ad valorem taxes	11,328	12,405	18,547	24,217
Transportation and marketing expenses	4,891	1,534	9,650	1,534
Midstream service expenses	607	403	2,210	1,096
Costs of purchased oil	30,172	140,578	62,863	201,242
General and administrative:				
Cash	11,479	16,158	25,592	31,544
Non-cash stock-based compensation, net[1]	(423)	10,676	6,983	20,015
Restructuring expenses	10,406	—	10,406	—
Depletion, depreciation and amortization	65,703	50,762	128,801	96,315
Other operating expenses	1,020	1,121	2,072	2,227
Total costs and expenses	$ 158,815	$ 256,279	$ 313,365	$ 422,783
Selected average costs and expenses per BOE sold[2]:				
Lease operating expenses	$ 3.16	$ 3.70	$ 3.24	$ 3.78
Production and ad valorem taxes	1.51	2.03	1.30	2.05
Transportation and marketing expenses	0.65	0.25	0.68	0.13
Midstream service expenses	0.08	0.07	0.15	0.09
General and administrative:				
Cash	1.53	2.64	1.79	2.67
Non-cash stock-based compensation, net[1]	(0.06)	1.75	0.49	1.69
Depletion, depreciation and amortization	8.78	8.30	9.03	8.15
Total selected costs and expenses	$ 15.65	$ 18.74	$ 16.68	$ 18.56

(1) For the three and six months ended June 30, 2019, non-cash stock-based compensation, net, excluding forfeitures related to our April 2019 organizational restructuring, was $5.6 million and $13.0 million, respectively, and on a per BOE sold basis was $0.75 and $0.91, respectively.

(2) Selected average costs and expenses per BOE sold are based on actual amounts and are not calculated using the rounded numbers presented in the table above.

Lease operating expenses. Lease operating expenses, which include workover expenses, increased by $1.0 million, or 4%, and by $1.6 million, or 4%, for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018. These increases are mainly due to increased costs for water gathering and handling activities and workover expenses during 2019. On a per BOE sold basis, lease operating expenses decreased by 15% and 14% for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018. We continue to focus on economic efficiencies associated with the usage and procurement of products and services related to lease operating expenses.

Production and ad valorem taxes. Production and ad valorem taxes decreased by $1.1 million, or 9%, and by $5.7 million, or 23%, for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018. The year-to-date decrease is mainly due to a $4.5 million production tax refund, related to additional marketing costs claimed for fiscal years 2013 through 2016, recorded during the first quarter of 2019. Production taxes, which are established by federal, state or local taxing authorities, are based on and fluctuate in proportion to our oil, NGL and natural gas sales revenue. Ad valorem taxes are based on and fluctuate in proportion to the taxable value assessed by the various counties where our oil and natural gas properties are located.

Transportation and marketing expenses. Transportation and marketing expenses were $4.9 million and $9.7 million for the three and six months ended June 30, 2019, respectively. In July 2018, we began recognizing transportation and marketing expense incurred for the delivery of produced oil to a customer in the U.S. Gulf Coast market.

Midstream service expenses. Midstream service expenses increased by $0.2 million, or 51%, and $1.1 million, or 102%, for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018. These increases are mainly due to an increase in water service costs during the three and six months ended June 30, 2019, which corresponds to a similar increase in water service revenue included in midstream service revenues during the same periods. Midstream service expenses are costs incurred to operate and maintain our (i) oil and natural gas gathering and transportation systems and related facilities, (ii) centralized oil storage tanks, (iii) natural gas lift, rig fuel and centralized compression infrastructure and (iv) water storage, recycling and transportation facilities.

Costs of purchased oil. Costs of purchased oil decreased by $110.4 million, or 79%, and by $138.4 million, or 69%, for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018 mainly due to decreases in the volumes of purchased oil. These are costs incurred for obtaining oil from third parties and, in some cases, transporting such oil utilized in our marketing activities. During the three months ended June 30, 2018, our volume of purchased oil increased by 132%, as compared to the same period in 2017. This second-quarter 2018 increase in the volume of purchased oil declined to levels typical of previous periods in the third quarter of 2018.

General and administrative ("G&A"). Total G&A decreased by $15.8 million, or 59%, and by $19.0 million, or 37%, for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018 mainly due to decreases in stock-based compensation, net. Stock-based compensation, net, decreased by $11.1 million, or 104%, and by $13.0 million, or 65%, for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018 mainly due to our April 2019 organizational restructuring. All stock-based compensation awards held by officers and employees who were affected by the organizational restructuring were forfeited and the corresponding stock-based compensation, net was reversed. See Note 6.c to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for information regarding our stock-based compensation.

Restructuring expenses. Organizational restructuring expenses relate to our workforce reduction, which was an effort to reduce costs and better position ourselves for the future, in response to recent market conditions and the retirement of two of our Senior Officers. In connection with the organizational restructuring, we incurred $10.4 million of one-time charges during the three months ended June 30, 2019 comprising of compensation, taxes, professional fees, outplacement and insurance-related expenses. As of June 30, 2019, no additional restructuring expenses are expected to be incurred. See Note 17 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for further discussion of the organizational restructuring.

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

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2019**	**2018**	**2019**	**2018**
Depletion of evaluated oil and natural gas properties	$ 61,938	$ 46,985	$ 121,308	$ 88,802
Depreciation of midstream service assets	2,543	2,460	5,044	4,865
Depreciation and amortization of other fixed assets	1,222	1,317	2,449	2,648
Total DD&A	$ 65,703	$ 50,762	$ 128,801	$ 96,315

DD&A increased by $14.9 million, or 29%, and by $32.5 million, or 34%, for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018. These increases are mainly due to (i) the previous reduction in our December 31, 2018 reserve volume, (ii) an increase in the depletion base and (iii) an increase in production volumes sold. Depletion expense per BOE increased 8% and 13% for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018. For further discussion of our depletion expense per BOE see "—Pricing and reserves."

Non-operating income (expense). The following table presents the components of non-operating income (expense):

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2019**	**2018**	**2019**	**2018**
Gain (loss) on derivatives, net	$ 88,394	$ (45,976)	$ 40,029	$ (36,966)
Interest expense	(15,765)	(14,424)	(31,312)	(27,942)
Litigation settlement	42,500	—	42,500	—
Loss on disposal of assets, net	(670)	(1,358)	(1,609)	(3,975)
Other income, net	2,846	443	3,713	896
Non-operating income (expense), net	$ 117,305	$ (61,315)	$ 53,321	$ (67,987)

Gain (loss) on derivatives, net. The following table presents the changes in the components of gain (loss) on derivatives, net:

(in thousands)	Three months ended June 30, 2019 compared to 2018	Six months ended June 30, 2019 compared to 2018
Change in mark-to-market gain (loss) on derivatives	$ 116,480	$ 56,767
Change in settlements received (paid) for matured derivatives, net	23,299	25,637
Change in settlements paid for early terminations of derivatives, net	(5,409)	(5,409)
Total change in gain (loss) on derivatives, net	$ 134,370	$ 76,995

The change in mark-to-market gain (loss) on derivatives is the result of new, matured and early-terminated contracts and the changing relationship between our outstanding contract prices and the future market prices in the forward curves, which we use to calculate the fair value of our derivatives. In general, if outstanding contracts are held constant, we experience gains during periods of decreasing market prices and losses during periods of increasing market prices. Settlements received or paid for matured derivatives are based on the settlement prices of our matured derivatives compared to the prices specified in the derivative contracts. During the three months ended June 30, 2019, we recognized significant mark-to-market gains in the net fair value of our derivatives outstanding due to decreases in the applicable futures curves that we have hedged, bolstered by our hedge restructuring that increased our weighted-average oil floor prices for 2019 and 2020.

During the three months ended June 30, 2019, we completed a hedge restructuring by early terminating puts and collars and entering into new swaps. We paid a net termination amount of $5.4 million that included the full settlement of the deferred premiums associated with these early-terminated puts and collars. The present value of these deferred premiums, classified under Level 3 of the fair value hierarchy, upon their early termination was $7.2 million.

See Notes 7 and 8.a to our unaudited consolidated financial statements included elsewhere in this Quarterly Report and "Item 3. Quantitative and Qualitative Disclosures About Market Risk" for additional information regarding our derivatives.

Interest expense. Interest expense increased by $1.3 million, or 9%, and by $3.4 million, or 12%, for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018 mainly due to increases in the amount outstanding on our Senior Secured Credit Facility.

Litigation settlement. During the three months ended June 30, 2019, we finalized and received a favorable settlement of $42.5 million in connection with our damage claims asserted in a previously disclosed litigation matter relating to a breach and wrongful termination of a crude oil purchase agreement. We do not anticipate the receipt of further payments in connection with this matter as this settlement constituted a full and final satisfaction of our claims.

Loss on disposal of assets, net. Loss on disposal of assets, net decreased by $0.7 million and $2.4 million for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018. From time to time, we dispose of inventory, midstream service assets and other fixed assets. The associated gain or loss recorded during the period fluctuates depending upon the volume of the assets disposed, their associated net book value and, in the case of a disposal by sale, the sale price.

Income tax. Income tax expense for the three and six months ended June 30, 2019 was $1.8 million and $1.7 million, respectively. We are subject to federal and state income taxes and the Texas franchise tax. As of June 30, 2019, we determined it was more likely than not that our deferred tax assets were not realizable through future net income. We maintain a valuation allowance to reduce certain deferred tax assets to amounts that are more likely than not to be realized and as of June 30, 2019, we have recorded a total valuation allowance of $202.1 million against our federal and Oklahoma deferred tax assets. As such, the effective tax rates for our operations were 1% for each of the three and six months ended June 30, 2019. For further discussion of our valuation allowance, see Note 14 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report.

Liquidity and capital resources

Historically, our primary sources of liquidity have been cash flows from operations, proceeds from equity offerings, proceeds from senior unsecured note offerings, borrowings under our Senior Secured Credit Facility and proceeds from asset dispositions. We believe cash flows from operations and availability under our Senior Secured Credit Facility provide sufficient liquidity to manage our cash needs and contractual obligations and to fund our expected capital expenditures. Our primary operational uses of capital have been for the acquisition, exploration and development of oil and natural gas properties and infrastructure development.

A significant portion of our capital expenditures can be adjusted and managed by us. We continually monitor the capital markets and our capital structure and consider which financing alternatives, including equity and debt capital resources, joint ventures and asset sales, are available to meet our future planned or accelerated capital expenditures. We may make changes to our capital structure from time to time, with the goal of maintaining financial flexibility, preserving or improving liquidity and/or achieving cost efficiency. Such financing alternatives, including capital market transactions and debt and equity repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. For further discussion of our financing activities included elsewhere in this Quarterly Report, see: (i) Note 5 for our debt instruments and (ii) Note 6.a and "Part II. Item 2. Purchases of Equity Securities" below for our $200.0 million share repurchase program authorized by our board of directors and commenced in February 2018. We also continuously look for other opportunities to maximize shareholder value.

Due to the inherent volatility in oil, NGL and natural gas prices and differences in the prices of oil, NGL and natural gas between where we produce and where we sell such commodities, we engage in derivative transactions, such as puts, swaps, collars and basis swaps to hedge price risk associated with a portion of our anticipated production. By removing a portion of the price volatility associated with future production, we expect to mitigate, but not eliminate, the potential effects of variability in cash flows from operations. See "Part I. Item 3. Quantitative and Qualitative Disclosures About Market Risk" below.

See Note 7 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for discussion of our hedge restructuring during the three months ended June 30, 2019 and corresponding summary of open derivative positions as of June 30, 2019 for derivatives that were entered into through June 30, 2019.

We continually seek to maintain a financial profile that provides operational flexibility. As of June 30, 2019, we had cash and cash equivalents of $55.8 million and available capacity under the Senior Secured Credit Facility, after the reduction for outstanding letters of credit, of $850.3 million, resulting in total liquidity of $906.1 million. As of July 31, 2019, we had cash and cash equivalents of $40.0 million and available capacity under the Senior Secured Credit Facility, after the reduction for outstanding letters of credit, of $870.3 million, resulting in total liquidity of $910.3 million. We believe that our operating cash flow, the receipt of the litigation settlement proceeds and the aforementioned liquidity sources provide us with the financial resources to manage our business needs, to implement our planned capital expenditure budget and, at our discretion, to fund our share repurchase program, pay down debt or increase our planned capital expenditure budget. 2019 has been a transitional year as we have attempted to tailor our operational cadence and corporate cost structure, including G&A expense, to target a balance between capital expenditures and cash flow from operations. We have also attempted to align personnel costs with activity levels with a recent reduction in force. We have restructured our oil hedges, securing additional cash flow to increase activity and substantially accelerating the time frame in which we expect to generate free cash flow while growing oil production.

Cash flows

The following table presents our cash flows:

	Six months ended June 30,	
(in thousands)	**2019**	**2018**
Net cash provided by operating activities	$ 261,269	$ 262,601
Net cash used in investing activities	(292,974)	(354,072)
Net cash provided by financing activities	42,354	15,916
Net increase (decrease) in cash and cash equivalents	$ 10,649	$ (75,555)

Cash flows from operating activities

Net cash provided by operating activities decreased by $1.3 million, or 1%, for the six months ended June 30, 2019, compared to the same period in 2018. Notable cash changes include (i) a decrease in oil, NGL and natural gas sales revenues, (ii) a decrease of $17.8 million from net working capital changes, (iii) receipt of $42.5 million for the litigation settlement and (iv) an increase of $23.5 million in settlements received for matured and early terminations of derivatives, net of premiums paid. The decrease in oil, NGL and natural gas sales revenues is due to the decrease in average sales prices without derivatives for oil, NGL and natural gas, partially offset by increased sales volumes of all production streams. See "—Results of operations" for additional discussion of changes in our oil, NGL and natural gas sales revenues.

Our operating cash flows are sensitive to a number of variables, the most significant of which are the volatility of oil, NGL and natural gas prices, mitigated to the extent of our derivatives' exposure, and sales volume levels. Regional and worldwide economic activity, weather, infrastructure, transportation capacity to reach markets, costs of operations, legislation and regulations and other variable factors significantly impact the prices of these commodities. These factors are not within our control and are difficult to predict. For additional information on risks related to our business, see "Part I. Item 1A. Risk Factors" in our 2018 Annual Report.

Cash flows from investing activities

Net cash used in investing activities decreased by $61.1 million, or 17%, for the six months ended June 30, 2019, compared to the same period in 2018, mainly due to a decrease in capital expenditures on and acquisitions of oil and natural gas properties, partially offset by a decrease in proceeds from disposition of capital assets, net of selling costs.

The following table presents the components of our cash flows from investing activities:

	Six months ended June 30,	
(in thousands)	2019	2018
Acquisitions of oil and natural gas properties	$ (2,880)	$ (16,340)
Capital expenditures:		
Oil and natural gas properties	(284,616)	(341,534)
Midstream service assets	(5,449)	(5,205)
Other fixed assets	(965)	(4,965)
Proceeds from disposition of equity method investee, net of selling costs	—	1,655
Proceeds from disposition of capital assets, net of selling costs	936	12,317
Net cash used in investing activities	$ (292,974)	$ (354,072)

Capital expenditure budget

Our goal is to achieve cash flow neutrality and, therefore, our capital spending in 2019 will ultimately be influenced by commodity price changes, as well as any changes in service costs and drilling and completions efficiencies. Due to the increased cash flow secured from the successful execution of our WTI NYMEX hedge restructuring and litigation settlement proceeds received, both of which occurred during the three months ended June 30, 2019, we adjusted our expected capital expenditures, excluding non-budgeted acquisitions, during the second quarter of 2019 to $465.0 million for calendar year 2019, which is an increase of $100.0 million from the previously announced level. We do not have a specific acquisition budget since the timing and size of acquisitions cannot be accurately forecasted.

The amount, timing and allocation of capital expenditures are largely discretionary and within management's control. If oil, NGL and natural gas prices decline below our acceptable levels, or costs increase above our acceptable levels, we may choose to defer a portion of our budgeted capital expenditures until later periods to achieve the desired balance between sources and uses of liquidity and prioritize capital projects that we believe have the highest expected returns and potential to generate near-term cash flow. Subject to financing alternatives, we may also increase our capital expenditures significantly to take advantage of opportunities we consider to be attractive. We consistently monitor and may adjust our projected capital expenditures in response to success or lack of success in drilling activities, changes in prices, availability of financing and joint venture opportunities, drilling and acquisition costs, industry conditions, the timing of regulatory approvals, the availability of rigs and supplies, changes in service costs, contractual obligations, internally generated cash flow and other factors both within and outside our control.

Cash flows from financing activities

Net cash provided by financing activities increased by $26.4 million for the six months ended June 30, 2019, compared to the same period in 2018, and is mainly attributable to first-quarter 2018 share repurchases under our share repurchase program that commenced in February 2018, partially offset by increased payments and decreased borrowings on our Senior Secured Credit Facility. During the year ended December 31, 2018, we repurchased 11,048,742 shares of common stock at a weighted-average price of $8.78 per common share for a total of $97.1 million under this program. All shares were retired upon repurchase. There were no share repurchases under this program during the six months ended June 30, 2019. As of June 30, 2019, we had authorization remaining to repurchase until its expiration in February 2020, $102.9 million of common stock.

For further discussion of our financing activities included elsewhere in this Quarterly Report, see: (i) Note 5 for our debt instruments and (ii) Note 6.a and "Part II. Item 2. Purchases of Equity Securities" below for our $200.0 million share repurchase program authorized by our board of directors and commenced in February 2018.

The following table presents the components of our cash flows from financing activities:

	Six months ended June 30,	
(in thousands)	2019	2018
Borrowings on Senior Secured Credit Facility	$ 80,000	$ 110,000
Payments on Senior Secured Credit Facility	(35,000)	—
Share repurchases	—	(87,218)
Stock exchanged for tax withholding	(2,646)	(4,397)
Payments for debt issuance costs	—	(2,469)
Net cash provided by financing activities	$ 42,354	$ 15,916

Debt

As of June 30, 2019, we were a party only to our Senior Secured Credit Facility and the indentures governing our senior unsecured notes.

Senior Secured Credit Facility. The Senior Secured Credit Facility matures on April 19, 2023, provided that if either the January 2022 Notes or March 2023 Notes have not been refinanced on or prior to the date (as applicable, the "Early Maturity Date") that is 90 days before their respective stated maturity dates, the Senior Secured Credit Facility will mature on such Early Maturity Date. As of June 30, 2019, the Senior Secured Credit Facility had a maximum credit amount of $2.0 billion, a borrowing base and an aggregate elected commitment of $1.1 billion each, with $235.0 million outstanding and was subject to an interest rate of 3.69%. The Senior Secured Credit Facility contains both financial and non-financial covenants, all of which we were in compliance with for all periods presented. Additionally, the Senior Secured Credit Facility provides for the issuance of letters of credit, limited to the lesser of total capacity or $80.0 million. As of June 30, 2019 and December 31, 2018, we had one letter of credit outstanding of $14.7 million under the Senior Secured Credit Facility. For additional information see Note 7.d in the 2018 Annual Report.

Senior unsecured notes. The following table presents principal amounts and applicable interest rates for our outstanding senior unsecured notes as of June 30, 2019:

(in millions, except for interest rates)	Principal	Interest rate
January 2022 Notes	$ 450.0	5.625%
March 2023 Notes	350.0	6.250%
Total senior unsecured notes	$ 800.0	

See Notes 5.a and 5.b to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for further discussion of the March 2023 Notes and January 2022 Notes, respectively.

Obligations and commitments

The following table presents significant contractual obligations and commitments as of June 30, 2019 and December 31, 2018 and their associated changes:

($ in thousands, except % change)	June 30, 2019	December 31, 2018	change	% change
Senior Unsecured Notes[1]	$ 963,438	$ 987,031	$ (23,593)	(2)%
Firm sale and transportation commitments[2]	341,477	365,940	(24,463)	(7)%
Senior Secured Credit Facility[3]	235,000	190,000	45,000	24 %
Asset retirement obligations[4]	57,948	56,882	1,066	2 %
Lease commitments[5]	26,052	34,374	(8,322)	(24)%
Derivative deferred premiums[6]	3,290	16,797	(13,507)	(80)%
Sand purchase and supply agreement[7]	—	3,858	(3,858)	(100)%
Total	$ 1,627,205	$ 1,654,882	$ (27,677)	(2)%

(1) Values presented include both our principal and interest obligations. The decrease in such balance as of June 30, 2019 is due to our semi-annual interest payments made in January and March of 2019. See Notes 5.a and 5.b to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional discussion of our March 2023 Notes and January 2022 Notes, respectively.

(2) We have committed to deliver, for sale or transportation, fixed volumes of product under certain contractual arrangements that specify the delivery of a fixed and determinable quantity. If not fulfilled, we are subject to firm transportation payments on excess pipeline capacity and other contractual penalties. The decrease in such commitments as of June 30, 2019 is mainly due to our fulfillment of contractual commitments. See Note 10.c to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional discussion of our firm sale and transportation commitments.

(3) This table does not include future loan advances, repayments, commitment fees or other fees on our Senior Secured Credit Facility as we cannot determine with accuracy the timing of such items. Additionally, this table does not include interest expense as it is a floating rate instrument and we cannot determine with accuracy the future interest rates to be charged. The increase in such balance as of June 30, 2019 is due to our borrowings, which are partially offset by our payments. As of June 30, 2019, the principal on our Senior Secured Credit Facility is due on April 19, 2023.

(4) Amounts represent our asset retirement obligation liabilities. See Note 12 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional discussion of our asset retirement obligations.

(5) Amounts represent our minimum lease payments. See Notes 2 and 3 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for discussion of our adoption of ASC 842 on January 1, 2019. For simplicity, we have combined our drilling contracts into the "Lease Commitments" line item for 2019 presentation purposes. The decrease in lease commitments as of June 30, 2019 is mainly due to the settlements paid for our fulfillment of lease commitments. We have committed to drilling rig contracts with third parties to facilitate our drilling plans. Included in the value in the table is the gross amount we are committed to pay for our drilling contracts, however, we will record our proportionate share based on our working interest in our consolidated financial statements as incurred. See Note 10.b to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional discussion of our drilling contracts.

(6) Amounts represent payments required for derivative deferred premiums on our commodity hedging contracts. The decrease in premiums as of June 30, 2019 is mainly due to settlements paid for early terminations of derivatives and premiums paid for derivatives. See Note 8.a to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional discussion of our deferred premiums.

(7) At June 30, 2019, we had met our commitment to purchase sand under this purchase and supply agreement.

Non-GAAP financial measure

The non-GAAP financial measure of Adjusted EBITDA, as defined by us, may not be comparable to similarly titled measures used by other companies. Therefore, this non-GAAP measure should be considered in conjunction with net income or loss and other performance measures prepared in accordance with GAAP, such as operating income or loss or cash flow from operating activities. Adjusted EBITDA should not be considered in isolation or as a substitute for GAAP measures, such as net income or loss, operating income or loss or any other GAAP measure of liquidity or financial performance.

Adjusted EBITDA is a non-GAAP financial measure that we define as net income or loss plus adjustments for income taxes, depletion, depreciation and amortization, non-cash stock-based compensation, net, accretion expense, mark-to-market on derivatives, premiums paid for derivatives, interest expense, gains or losses on disposal of assets and other non-recurring income and expenses. Adjusted EBITDA provides no information regarding a company's capital structure, borrowings, interest costs, capital expenditures, working capital movement or tax position. Adjusted EBITDA does not represent funds available for discretionary use because those funds are required for debt service, capital expenditures, working capital, income taxes, franchise taxes and other commitments and obligations. However, our management believes Adjusted EBITDA is useful to an investor in evaluating our operating performance because this measure:

- is widely used by investors in the oil and natural gas industry to measure a company's operating performance without regard to items excluded from the calculation of such term, which can vary substantially from company to company depending upon accounting methods, the book value of assets, capital structure and the method by which assets were acquired, among other factors;
- helps investors to more meaningfully evaluate and compare the results of our operations from period to period by removing the effect of our capital structure from our operating structure; and
- is used by our management for various purposes, including as a measure of operating performance, in presentations to our board of directors and as a basis for strategic planning and forecasting.

There are significant limitations to the use of Adjusted EBITDA as a measure of performance, including the inability to analyze the effect of certain recurring and non-recurring items that materially affect our net income or loss, the lack of comparability of results of operations to different companies and the different methods of calculating Adjusted EBITDA reported by different companies. Our measurements of Adjusted EBITDA for financial reporting as compared to compliance under our debt agreements differ.

The following table presents a reconciliation of net income (GAAP) to Adjusted EBITDA (non-GAAP):

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2019**	**2018**	**2019**	**2018**
Net income	$ 173,382	$ 33,452	$ 163,891	$ 119,972
Plus:				
Deferred income tax expense	1,751	—	1,655	—
Depletion, depreciation and amortization	65,703	50,762	128,801	96,315
Non-cash stock-based compensation, net	(423)	10,676	6,983	20,015
Restructuring expenses	10,406	—	10,406	—
Accretion expense	1,020	1,121	2,072	2,227
Mark-to-market on derivatives:				
(Gain) loss on derivatives, net	(88,394)	45,976	(40,029)	36,966
Settlements received (paid) for matured derivatives, net	23,480	181	23,582	(2,055)
Settlements paid for early terminations of derivatives, net	(5,409)	—	(5,409)	—
Premiums paid for derivatives	(2,233)	(5,451)	(6,249)	(9,475)
Interest expense	15,765	14,424	31,312	27,942
Litigation settlement	(42,500)	—	(42,500)	—
Loss on disposal of assets, net	670	1,358	1,609	3,975
Adjusted EBITDA	$ 153,218	$ 152,499	$ 276,124	$ 295,882

Critical accounting policies and estimates

The discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Certain accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions or if different assumptions had been used. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of our unaudited consolidated financial statements.

There have been no material changes in our critical accounting policies and procedures during the six months ended June 30, 2019. See our critical accounting policies in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of the 2018 Annual Report. Furthermore, see Note 3 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for discussion of the impact of the adoption of ASC 842.

Recently issued or adopted accounting pronouncements

For discussion of recently issued or adopted accounting pronouncements, see Note 2 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report. See Note 3 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for discussion related to the adoption of ASC 842.

Off-balance sheet arrangements

Currently, we do not have any off-balance sheet arrangements other than our firm sale and transportation commitments, which are described in "—Obligations and commitments." In addition, we have certain operating leases with a term less than or equal to 12 months that we have made an accounting policy election to not record on the unaudited consolidated balance sheets. See Notes 3 and 10 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional information on our leases and commitments and contingencies, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risk. The term "market risk," in our case, refers to the risk of loss arising from adverse changes in oil, NGL and natural gas prices and in interest rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of how we view and manage our ongoing market risk exposures. All of our market risk-sensitive derivative instruments were entered into for hedging purposes, rather than for speculative trading.

Commodity price exposure

Due to the inherent volatility in oil, NGL and natural gas prices and differences in the prices of oil, NGL and natural gas between where we produce and where we sell such commodities, we engage in derivative transactions, such as puts, swaps, collars and basis swaps to hedge price risk associated with a portion of our anticipated production. By removing a portion of the price volatility associated with future production, we expect to mitigate, but not eliminate, the potential effects of variability in cash flows from operations.

During a significant portion of 2018, Midland market crude oil prices experienced an increased discount to WTI Cushing and WTI Houston prices. These discounts have narrowed in 2019, however, they remain volatile. During a significant portion of 2018 and in 2019, the West Texas WAHA market natural gas prices experienced an increased discount to Henry Hub NYMEX prices and continues to remain volatile. The discounts are primarily due to limited pipeline capacity constraining transportation of crude oil and natural gas out of the Permian Basin to major market hubs including, but not limited to, Cushing, Oklahoma and the United States Gulf Coast. These pipeline constraints may continue to affect Midland market crude oil prices and West Texas WAHA market natural gas prices until further transportation capacity becomes operational or until basin-wide crude oil and natural gas production decreases from its current levels. We expect the basin differential to narrow, as new pipeline capacity is expected to become operational during the second half of 2019 and the first half of 2020. We are a contracted firm shipper on the Gray Oak Pipeline, which is expected to become operational during the fourth quarter of 2019. We will continue to pursue avenues to attempt to protect our oil and natural gas value from basin differentials by securing crude oil transportation capacity, which enables us to sell oil in multiple markets, and entering into basis-swap derivatives, which provides pricing protection.

The fair values of our open derivative contracts are largely determined by forward price curves of the relevant indices. As of June 30, 2019, a 10% change in the forward curves associated with our derivatives would have changed our unaudited consolidated balance sheet's net derivative position to the following amounts:

(in thousands)	10% Increase	10% Decrease
Net (liability) asset derivative position	$ (18,140)	$ 161,923

As of June 30, 2019 and December 31, 2018, the net derivative positions were assets of $71.5 million and $43.5 million, respectively. See Notes 7 and 8.a to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional disclosures regarding our derivatives.

Interest rate risk

Our Senior Secured Credit Facility bears interest at a floating rate and our January 2022 Notes and March 2023 Notes bear interest at fixed rates. The maturity years, outstanding balances and interest rates on our long-term debt as of June 30, 2019 were as follows:

	Maturity year	
(in millions except for interest rates)	2022	2023[(1)]
Senior Secured Credit Facility	$ —	$ 235.0
Floating interest rate	—%	3.688%
January 2022 Notes	$ 450.0	$ —
Fixed interest rate	5.625%	—%
March 2023 Notes	$ —	$ 350.0
Fixed interest rate	—%	6.250%

(1) The Senior Secured Credit Facility matures on April 19, 2023, provided that if either the January 2022 Notes or March 2023 Notes have not been refinanced on or prior to the applicable Early Maturity Date, the Senior Secured Credit Facility will mature on such Early Maturity Date.

Counterparty and customer credit risk

See Note 13 in the 2018 Annual Report for additional disclosures regarding credit risk. See Note 2.e in the 2018 Annual Report for additional disclosures regarding our accounts receivable. See Note 13 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional information regarding revenue recognition. See Notes 7 and 8.a to our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional disclosures regarding our derivatives.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of Laredo's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), was performed under the supervision and with the participation of Laredo's management, including our principal executive officer and principal financial officer. Based on that evaluation, these officers concluded that Laredo's disclosure controls and procedures were effective as of June 30, 2019. Our disclosure controls and other procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to Laredo's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of changes in internal control over financial reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II

Item 1. Legal Proceedings

From time to time, we are subject to various legal proceedings arising in the ordinary course of business, including proceedings for which we may not have insurance coverage. While many of these matters involve inherent uncertainty as of the date hereof, we do not currently believe that any such legal proceedings will have a material adverse effect on our business, financial position, results of operations or liquidity.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our 2018 Annual Report. There have been no material changes in our risk factors from those described in the 2018 Annual Report. The risks described in such reports are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. Purchases of Equity Securities

The following table summarizes purchases of common stock by Laredo:

Period	Total number of shares purchased[1]	Weighted-average price paid per share	Total number of shares purchased as part of publicly announced plans[2]	Maximum value that may yet be purchased under the program as of the respective period-end date [2]
April 1, 2019 - April 30, 2019	3,823	$ 3.16	—	$ 102,945,283
May 1, 2019 - May 31, 2019	—	$ —	—	$ 102,945,283
June 1, 2019 - June 30, 2019	8,561	$ 2.64	—	$ 102,945,283
Total	12,384		—	

(1) Represents shares that were withheld by us to satisfy tax withholding obligations that arose upon the lapse of restrictions on restricted stock awards.

(2) In February 2018, our board of directors authorized a $200 million share repurchase program commencing in February 2018. The repurchase program expires in February 2020. Share repurchases under the share repurchase program may be made through a variety of methods, which may include open market purchases, privately negotiated transactions and block trades. The timing and actual number of shares repurchased, if any, will depend upon several factors, including market conditions, business conditions, the trading price of our common stock and the nature of other investment opportunities available to us.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Description
2.1	Membership Interest Purchase and Sale Agreement, dated as of October 1, 2017, by and among Medallion Midland Acquisition, LLC, Medallion Gathering & Processing, LLC, Laredo Midstream Services, LLC, and Medallion Midstream Holdings, LLC (incorporated by reference to Exhibit 2.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on October 30, 2017).
3.1	Amended and Restated Certificate of Incorporation of Laredo Petroleum Holdings, Inc. (incorporated by reference to Exhibit 3.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on December 22, 2011).
3.2	Certificate of Ownership and Merger, dated as of December 30, 2013 (incorporated by reference to Exhibit 3.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on January 6, 2014).
3.3	Second Amended and Restated Bylaws of Laredo Petroleum, Inc. (incorporated by reference to Exhibit 3.3 of Laredo's Annual Report on Form 10-K (File No. 001-35380) filed on February 17, 2016).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Laredo's Registration Statement on Form 8-A12B/A (File No. 001-35380) filed on January 7, 2014).
10.1#	Form of Officer Severance and Release Agreement, as of April 2019 (incorporated by reference to Exhibit 10.1 of Laredo's Quarterly Report on Form 10-Q (File No. 001-35380) filed on May 2, 2019).
10.2	Consulting Agreement, dated April 3, 2019, between Laredo Petroleum, Inc. and Schooley Ventures, LLC (incorporated by reference to Exhibit 10.2 of Laredo's Quarterly Report on Form 10-Q (File No. 001-35380) filed on May 2, 2019).
10.3#	Offer Letter, dated April 17, 2019, between Laredo Petroleum, Inc. and Mr. Jason Pigott (incorporated by reference to Exhibit 10.3 of Laredo's Quarterly Report on Form 10-Q (File No. 001-35380) filed on May 2, 2019).
10.4#	Form of Performance Share Unit Award Agreement (incorporated by reference to Exhibit 10.4 of Laredo's Quarterly report on Form 10-Q (File No. 001-35380) filed on May 2, 2019).
10.5#	Amended and Restated Form of Indemnification Agreement between Laredo Petroleum, Inc. and each of the officers and directors thereof (incorporated by reference to Exhibit 10.5 of Laredo's Quarterly Report on Form 10-Q (File No. 001-35380) filed on May 2, 2019).
10.6	Schedule 1, amended and restated as of April 30, 2019, to the Third Amendment to Fifth Amended and Restated Credit Agreement, dated as of April 19, 2018, among Laredo Petroleum, Inc., as borrower, Wells Fargo Bank, N.A., as administrative agent, Laredo Midstream Services, LLC and Garden City Minerals, LLC, as guarantors and the banks signatory thereto (incorporated by reference to Exhibit 10.6 of Laredo's Quarterly Report on Form 10-Q (File No. 001-35380) filed on May 2, 2019).
10.7#	Laredo Petroleum, Inc. Omnibus Equity Incentive Plan, as amended and restated as of May 16, 2019 (incorporated by reference to Exhibit 10.1 of Laredo's Current Report on Form 8-K (file No. 001-35380) filed on May 16, 2019).
10.8*#	Form of Outperformance Share Unit Award Agreement.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18. U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.SCH*	XBRL Schema Document.
101.CAL*	XBRL Calculation Linkbase Document.
101.DEF*	XBRL Definition Linkbase Document.
101.LAB*	XBRL Label Linkbase Document.
101.PRE*	XBRL Presentation Linkbase Document.
XML	Extracted XBRL Instance Document.

* Filed herewith.
** Furnished herewith.
# Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LAREDO PETROLEUM, INC.

Date: August 1, 2019	By:	/s/ Randy A. Foutch
		Randy A. Foutch
		Chairman and Chief Executive Officer
		(principal executive officer)
Date: August 1, 2019	By:	/s/ Michael T. Beyer
		Michael T. Beyer
		Senior Vice President and Chief Financial Officer
		(principal financial officer & principal accounting officer)

LAREDO PETROLEUM, INC.
OMNIBUS EQUITY INCENTIVE PLAN
OUTPERFORMANCE SHARE UNIT AWARD AGREEMENT

This Outperformance Share Unit Award Agreement ("Agreement") is made as of (the "Grant Date") by and between Laredo Petroleum, Inc. (the "Company") and (the "Participant").

W I T N E S S E T H :

WHEREAS, the Participant is currently an employee of the Company or its Subsidiary, and the Company desires to have the Participant remain in such capacity and to afford the Participant the opportunity to participate in the potential increase in value of the Company over the Performance Period (as defined below).

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereto agree as follows:

1. Grant of Outperformance Share Units. Subject to the restrictions, terms and conditions set forth herein and in the Company's Omnibus Equity Incentive Plan, as amended (the "Plan"), the Company hereby grants to the Participant an unfunded and unsecured promise to deliver shares of Common Stock subject to the achievement of performance goals and time-vesting conditions as set forth in this Agreement (the "Outperformance Share Units", or the "Award"). The provisions of the Plan are incorporated herein by reference, and all capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Plan. In the event of any inconsistency between the provisions of the Plan and this Agreement, the provisions of this Agreement shall govern and control.

2. Earned Outperformance Share Units. The Participant is eligible to earn the number of Outperformance Share Units (the "Earned Outperformance Share Units") set forth in the table below based upon the Average Stock Price (defined below) achieved during the performance period (the "Performance Period") that commences on (the "Commencement Date") and ends on the earlier to occur of (i) (the "Final Date") and (ii) the date of the Participant's termination of employment with the Company or any of its Subsidiaries due to death or Disability as provided in Section 5(b) below (the "Termination Date"). For purposes of this Agreement, "Average Stock Price" means the highest 50 consecutive trading day average closing stock price of the Company that occurs during the applicable Performance Period.

The Administrator shall determine and certify the Average Stock Price on or immediately following the last day of the applicable Performance Period. Based on the Average Stock Price achieved during the applicable Performance Period, the Participant is eligible to earn the following number of Earned Outperformance Share Units:

In the event that the Average Stock Price is:	**Then the number of Earned Outperformance Share Units shall be:**
Below $5.50	0
$6.00	200,000
$6.50	220,000
$7.00	240,000
$7.50	260,000
$8.00	280,000
$8.50	300,000
$9.00	340,000
$9.50	380,000
$10.00	420,000
$10.50	460,000
$11.00	500,000
$11.50	540,000
$12.00	600,000
$12.50	660,000
$13.00	720,000
$13.50	780,000
$14.00	840,000
$14.50	900,000
$15.00 or greater	1,000,000

Each of the Average Stock Price amounts set forth in the table above is an "Average Stock Price Hurdle." In the event that the Average Stock Price achieved is between two Average Stock Price Hurdles, then there shall be no linear interpolation between the two Average Stock Price Hurdles and the number of Earned Outperformance Share Units shall be the number that would have been earned had the Average Stock Price achieved been the lower of the two Average Stock Price Hurdles. For the avoidance of doubt, (x) in no event will the Participant earn any Outperformance Share Units if the Average Stock Price is below $5.50; and (y) in no event will the Participant earn in excess of 1,000,000 Outperformance Share Units if the Average Stock Price is $15.00 or greater. Notwithstanding anything in this Agreement to the contrary, in the event of the occurrence of any of extraordinary, nonrecurring and/or significant corporate event or events, the Administrator may adjust the number of shares of Common Stock that may be earned and delivered with respect to the Outperformance Share Units under this Agreement if the Administrator determines, in its sole discretion, that such adjustment is equitable and necessary to more accurately reflect the Company's performance during the Performance Period.

3. Vesting Schedule. Subject to Section 5(b) below, the Earned Outperformance Share Units shall vest as follows: (i) one-third of the Earned Outperformance Share Units will vest on the Final Date; (ii) one-third of the Earned Outperformance Share Units will vest on the first anniversary of the Final Date; and (iii) one-third of the Earned Outperformance Share Units will

vest on the second anniversary of the Final Date ((i), (ii) and (iii), collectively, the "Vesting Dates"); provided, that, the Participant is employed with the Company or any of its Subsidiaries on the applicable Vesting Date.

4. Form and Time of Payment. Subject to Section 5(b) below, each Earned Outperformance Share Unit will be settled in one share of Common Stock, which shall be delivered to the Participant as soon as practicable following the applicable Vesting Date, but in no event later than 30 days following such Vesting Date.

5. Termination of Employment.

(a) In General. In the event that the Participant's employment with the Company or any if its Subsidiaries is terminated prior to any Vesting Date for any reason other than due to the Participant's death or Disability as provided under Section 5(b) below, then any Outperformance Share Unit that has not vested as of such date shall be forfeited by the Participant and cancelled for no consideration.

(b) Termination Due to Death or Disability. In the event that the Participant's employment with the Company or any of its Subsidiaries is terminated prior to any Vesting Date (i) by reason of the Participant's death or (ii) because the Participant is determined by the Board or the Administrator to be subject to a Disability, then the Participant shall immediately vest in the number of Earned Outperformance Share Units, if any, determined earned pursuant to Section 2 above and each such Earned Outperformance Share Unit shall be settled in one share of Common Stock within 30 days following the Termination Date; provided, that, if the Termination Date is prior to the Final Date, such number of Earned Outperformance Share Units shall be pro-rated based on a fraction, the numerator being the number of days the Participant was employed with the Company or any of its Subsidiaries from the Commencement Date until the Termination Date and the denominator being the number of days between the Commencement Date and the Final Date.

6. Transferability. This Award shall not be transferable otherwise than by will or the laws of descent and distribution. Any attempt by the Participant (or in the case of the Participant's death or Disability, the Participant's beneficiary or personal administrator) to assign or transfer the Award, either voluntarily or involuntarily, contrary to the provisions hereof, shall be null and void and without effect and shall render the Award itself null and void.

7. Withholding. The Company shall be obligated to withhold amounts sufficient to satisfy any tax withholding or similar withholding obligations to which the Company or its Subsidiaries may be subject by reason of payment under this Award. The Participant expressly acknowledges and agrees that the Participant's rights hereunder are subject to this obligation of the Company regarding any applicable taxes required to be withheld in connection with the Award, in a form and manner satisfactory to the Company.

8. No Right to Continued Employment. This Agreement does not confer upon the Participant any right to continuance of employment or service with the Company or any of its

Subsidiaries, nor shall it interfere in any way with the right of the Company or any of its Subsidiaries to terminate the Participant's employment or service with the Company or any of its Subsidiaries at any time and for any reason.

9. Terms of Issuance. The Participant acknowledges being subject to all terms, conditions and policies contained in the Company's Employee Manual, as the same may be amended or modified from time-to-time at the sole discretion of the Company.

10. Notice. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated in a notice mailed or delivered to the other party as provided herein; provided, that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its Tulsa, Oklahoma, office and all notices or communications by the Company to the Participant may be given to the Participant personally or mailed to the Participant's home address as reflected on the books of the Company.

11. Administration. This Agreement and the issuance of Common Stock contemplated hereunder shall be administered by Board or a committee of one or more members of the Board appointed by the Board to administer this Agreement and such issuance (the "Administrator"). Subject to applicable law, the Administrator shall have the sole and plenary authority to: (i) interpret, administer, reconcile any inconsistency in, correct any defect in and/or supply any omission in this Agreement; (ii) establish, amend, suspend, or waive any rules and regulations and appoint such agents as the Administrator shall deem appropriate for the proper administration of this Agreement; (iii) accelerate the lapse of restrictions on the Award and/or modify the date that Performance Period expires; and (iv) make any other determination and take any other action that the Administrator deems necessary or desirable for the administration of this Agreement. The Administrator may delegate to one or more officers of the Company the authority to act on behalf of the Administrator with respect to any matter, right, obligation, or election that is the responsibility of or that is allocated to the Administrator herein, and that may be so delegated as a matter of law. For the avoidance of doubt, in the event of a Change of Control the provisions of the Plan shall apply, including, without limitation, the authority and discretion granted to the Administrator with regard to the vesting of Outperformance Share Units, payment amount and payment timing.

12. Governing Law. THIS AGREEMENT IS GOVERNED BY AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES OF SUCH STATE. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

13. Miscellaneous.

(a) Amendment and Waiver. Subject to Section 13(b) of the Plan, the Administrator may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, the Award granted hereunder or this Agreement; provided, that, any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would materially and adversely affect the rights of the Participant with respect to the Award granted hereunder shall not to that extent be effective without the consent of the Participant.

(b) Severability. Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction by reason of applicable law shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating or affecting the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(c) Entire Agreement and Effectiveness. This Agreement embodies the complete agreement and understanding among the parties hereto with respect to the subject matter hereof and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

(d) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same Agreement.

(e) Headings. The paragraph headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

(f) Gender and Plurals. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

(g) Successors and Assigns. This Agreement shall bind and inure to the benefit of and be enforceable by and against the Participant, the Company and their respective successors, allowable assigns, heirs, representatives and estates, as the case may be.

(h) Construction. Where specific language is used to clarify by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict in any manner the construction of the general statement to which it relates. The language used in this Agreement shall be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party.

(i) Survival of Representations, Warranties and Agreements. All representations, warranties and agreements contained herein shall survive the consummation of the transactions contemplated hereby and the termination of this Agreement.

(j) WAIVER OF PUNITIVE AND EXEMPLARY DAMAGE CLAIMS. EACH PARTY, BY EXECUTING THIS AGREEMENT, WAIVES, TO THE FULLEST EXTENT

ALLOWED BY LAW, ANY CLAIMS TO RECOVER PUNITIVE, EXEMPLARY OR SIMILAR DAMAGES NOT MEASURED BY THE PREVAILING PARTY'S ACTUAL DAMAGES IN ANY DISPUTE OR CONTROVERSY ARISING UNDER, RELATING TO OR IN CONNECTION WITH THIS AGREEMENT.

(k) Delivery of Laredo Petroleum, Inc. Prospectus dated May 16, 2019. Participant acknowledges that Participant has been provided a copy of the Company's prospectus related to the Company's Omnibus Equity Incentive Plan through such prospectus' availability on the Company's shared network drive, at *S:\Omnibus Equity Incentive Plan Prospectus*. A copy will also be provided to Participant, upon Participant's written request to the Company

14. Section 409A. Notwithstanding any of the foregoing, it is intended that this Agreement comply with, or be exempt from, the provisions of Section 409A of the Code and that this Award not result in unfavorable tax consequences to the Participant under Section 409A of the Code. This Agreement will be administered and interpreted in a manner consistent with such intent. Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, the Participant shall not be considered to have terminated employment with Company or any of its Subsidiaries for purposes of this Agreement and no payments shall be due to him or her under this Agreement which are payable upon his or her termination of employment until he or she would be considered to have incurred a "separation from service" from the Company or any of its Subsidiaries within the meaning of Section 409A of the Code. To the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, amounts that would otherwise be payable and benefits that would otherwise be provided to a "specified employee" pursuant to this Agreement during the six-month period immediately following the Participant's termination of employment shall instead be paid within 30 days following the first business day after the date that is six months following the Participant's termination of employment with the Company or any of its Subsidiaries (or upon the Participant's death, if earlier). In addition, for purposes of this Agreement, each amount to be paid or benefit to be provided to the Participant pursuant to this Agreement shall be construed as a separate identified payment for purposes of Section 409A of the Code. Notwithstanding any of the foregoing to the contrary, the Company and its respective officers, directors, employees, or agents make no guarantee that the terms of this Agreement as written comply with, or are exempt from, the provisions of Section 409A of the Code, and none of the foregoing shall have any liability for the failure of the terms of this Agreement as written to comply with, or be exempt from, the provisions of Section 409A of the Code.

15. Clawback. The Participant acknowledges and agrees that payments made under this Agreement are subject to clawback if such payments are made (i) on account of fraud or misconduct by the Participant, (ii) following an accounting restatement under certain circumstances (as referenced in the Company's Omnibus Equity Incentive Plan) or (iii) as may be required by any other policy of the Company which may now exist or hereafter be adopted regarding repayment of incentive-based compensation, as may be in effect from time to time.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

COMPANY:

LAREDO PETROLEUM, INC.

Randy A. Foutch
Chairman & CEO

PARTICIPANT:

Electronic Signature

Printed Name:

EXHIBIT 31.1

CERTIFICATION

I, Randy A. Foutch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Laredo Petroleum, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting(as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2019

/s/ Randy A. Foutch

Randy A. Foutch

Chairman and Chief Executive Officer

CERTIFICATION

I, Michael T. Beyer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Laredo Petroleum, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting(as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2019

/s/ Michael T. Beyer

Michael T. Beyer

Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Randy A. Foutch, Chairman and Chief Executive Officer of Laredo Petroleum, Inc. (the "Company"), and Michael T. Beyer, Senior Vice President and Chief Financial Officer of the Company, certify that, to their knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the period ending June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 1, 2019

/s/ Randy A. Foutch

Randy A. Foutch
Chairman and Chief Executive Officer

August 1, 2019

/s/ Michael T. Beyer

Michael T. Beyer
Senior Vice President and Chief Financial Officer