UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from to

Commission File Number: 001-35380

Laredo Petroleum Holdings, 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 1800	
Tulsa, Oklahoma	**74119**
(Address of Principal Executive Offices)	(Zip code)

(918) 513-4570

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x	Smaller reporting company o

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

Number of shares of registrant s common stock outstanding as of May 8, 2012: 128,168,205

Table of Contents

TABLE OF CONTENTS

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in or incorporated by reference into this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements include statements, projections and estimates concerning our operations, performance, business strategy, oil and natural gas reserves, drilling program capital expenditures, liquidity and capital resources, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes, derivative activities and potential financing. Forward-looking statements are generally accompanied by words such as estimate, project, predict, believe, expect, anticipate, potential may, foresee, plan, goal, should, intend, pursue, target, continue, suggest or other words that convey the uncertainty of future 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 ongoing instability and uncertainty in the U.S. and international financial and consumer markets that is adversely affecting the liquidity available to us and our customers and is adversely affecting the demand for commodities, including crude oil and natural gas;
- volatility of oil and natural gas prices;
- the possible introduction of regulations that prohibit or restrict our ability to apply hydraulic fracturing to our oil and natural gas wells;
- discovery, estimation, development and replacement of oil and natural gas reserves, including our expectations that estimates of our proved reserves will increase;
- competition in the oil and gas industry;
- availability and costs of drilling and production equipment, labor, and oil and gas processing and other services;
- changes in domestic and global demand for oil and natural gas;
- the availability of sufficient pipeline and transportation facilities;

- uncertainties about the estimates of our oil and natural gas reserves;
- changes in the regulatory environment and changes in international, legal, political, administrative or economic conditions;
- successful results from our identified drilling locations;
- our ability to execute our strategies;
- our ability to recruit and retain the qualified personnel necessary to operate our business;
- our ability to comply with federal, state and local regulatory requirements;
- evolving industry standards and adverse changes in global economic, political and other conditions;
- restrictions contained in our debt agreements, including our senior secured credit facility and the indenture governing our senior unsecured notes, as well as debt that could be incurred in the future; and
- our ability to generate sufficient cash to service our indebtedness and to generate future profits.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various factors, including those set forth under Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q and under Item 1A. Risk Factors and 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, 2011 and elsewhere in this Quarterly Report on Form 10-Q. In light of such risks and uncertainties, we caution you not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report, or if earlier, as of the date they were made. We do not intend to, and disclaim any obligation to, update or revise any forward-looking statements unless required by securities law.

Table of Contents

PART I

Item 1. **Consolidated Financial Statements (Unaudited)**

Laredo Petroleum Holdings, Inc.

Consolidated balance sheets

(in thousands, except units and share data)

(Unaudited)

		March 31, 2012		December 31, 2011
Assets				
Current assets:				
Cash and cash equivalents	$	12,212	$	28,002
Accounts receivable, net		88,936		74,135
Derivative financial instruments		17,246		13,281
Deferred income taxes		6,408		5,202
Other current assets		8,521		2,318
Total current assets		133,323		122,938
Property and equipment:				
Oil and natural gas properties, full cost method:				
Proved properties		2,305,565		2,083,015
Unproved properties not being amortized		119,203		117,195
Pipeline and gas gathering assets		59,995		58,136
Other fixed assets		19,994		16,948
		2,504,757		2,275,294
Less accumulated depreciation, depletion, amortization and impairment		948,308		896,785
Net property and equipment		1,556,449		1,378,509
Deferred income taxes		74,413		90,376
Derivative financial instruments		6,042		6,510
Deferred loan costs, net		22,397		23,457
Other assets, net		5,858		5,862
Total assets	$	1,798,482	$	1,627,652
Liabilities and stockholders equity				
Current liabilities:				
Accounts payable	$	73,925	$	46,007
Undistributed revenue and royalties		30,751		26,844
Accrued capital expenditures		67,419		91,022
Accrued compensation and benefits		5,572		11,270
Derivative financial instruments		5,230		4,187
Accrued interest payable		6,989		20,112
Other current liabilities		16,062		14,919
Total current liabilities		205,948		214,361
Long-term debt		781,913		636,961
Derivative financial instruments		7,021		2,415
Asset retirement obligations		13,706		12,568

Other noncurrent liabilities		1,399		1,334
Total liabilities		1,009,987		867,639
Stockholders equity:				
Preferred stock, $0.01 par value, 50,000,000 shares authorized and zero issued at March 31, 2012 and December 31, 2011				
Common stock, $0.01 par value, 450,000,000 shares authorized, and 128,147,837 and 127,617,391 issued, net of treasury, at March 31, 2012 and December 31, 2011, respectively		1,281		1,276
Additional paid-in capital		953,617		951,375
Accumulated deficit		(166,399)		(192,634)
Treasury stock, at cost, 7,609 common shares at March 31, 2012 and December 31, 2011		(4)		(4)
Total stockholders equity		788,495		760,013
Total liabilities and stockholders equity	$	1,798,482	$	1,627,652

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

Table of Contents

Laredo Petroleum Holdings, Inc.

Consolidated statements of operations

(in thousands, except for per share data)

(Unaudited)

	Three months ended March 31, 2012	2011
Revenues:		
Oil and natural gas sales	$ 148,951	$ 105,769
Natural gas transportation and treating	1,397	1,342
Total revenues	150,348	107,111
Costs and expenses:		
Lease operating expenses	14,984	7,918
Production and ad valorem taxes	8,919	7,102
Natural gas transportation and treating	300	552
Drilling and production	1,438	296
General and administrative	15,284	8,929
Stock-based compensation	2,247	319
Accretion of asset retirement obligations	264	149
Depreciation, depletion and amortization	51,523	32,478
Impairment expense		206
Total costs and expenses	94,959	57,949
Operating income	55,389	49,162
Non-operating income (expense):		
Realized and unrealized gain (loss):		
Commodity derivative financial instruments, net	594	(28,034)
Interest rate derivatives, net	(323)	(118)
Interest expense	(14,684)	(10,516)
Interest and other income	16	36
Write-off of deferred loan costs		(3,246)
Loss on disposal of assets		(17)
Non-operating expense, net	(14,397)	(41,895)
Income before income taxes	40,992	7,267
Income tax expense:		
Deferred	(14,757)	(2,597)
Total income tax expense	(14,757)	(2,597)
Net income	$ 26,235	$ 4,670
Net income per common share:		
Basic	$ 0.21	
Diluted	$ 0.20	
Weighted average common shares outstanding:		
Basic	126,803	
Diluted	127,981	

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

Table of Contents

Laredo Petroleum Holdings, Inc.

Consolidated statement of stockholders equity
(in thousands)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Treasury Stock (at cost) Shares	Treasury Stock (at cost) Amount	Accumulated deficit	Total
Balance, December 31, 2011	127,617	$ 1,276	$ 951,375	8	$ (4)	$ (192,634)	$ 760,013
Restricted stock awards	605	6	(6)				
Restricted stock forfeitures	(75)	(1)	1				
Stock-based compensation			2,247				2,247
Net income						26,235	26,235
Balance, March 31, 2012	128,147	$ 1,281	$ 953,617	8	$ (4)	$ (166,399)	$ 788,495

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

Table of Contents

Laredo Petroleum Holdings, Inc.

Consolidated statements of cash flows

(in thousands)

(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Cash flows from operating activities:		
Net income	$ 26,235	$ 4,670
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense	14,757	2,597
Depreciation, depletion and amortization	51,523	32,478
Impairment expense		206
Non-cash stock-based compensation	2,247	319
Accretion of asset retirement obligations	264	149
Unrealized loss on derivative financial instruments, net	3,334	27,504
Premiums paid for derivative financial instruments	(1,332)	(491)
Amortization of premiums paid for derivative financial instruments	150	107
Amortization of deferred loan costs	1,060	949
Write-off of deferred loan costs		3,246
Amortization of October 2011 Notes premium	(49)	
Amortization of other assets	4	5
Loss on disposal of assets		17
(Increase) decrease in accounts receivable	(14,801)	(8,899)
(Increase) decrease in other current assets	(6,203)	(856)
Increase (decrease) in accounts payable	27,918	10,673
Increase (decrease) in undistributed revenues and royalties	3,907	3,994
Increase (decrease) in accrued compensation and benefits	(5,698)	(6,020)
Increase (decrease) in other accrued liabilities	(12,319)	5,363
Increase (decrease) in other noncurrent liabilities	405	(23)
Net cash provided by operating activities	91,402	75,988
Cash flows from investing activities:		
Capital expenditures:		
Oil and natural gas properties	(247,280)	(187,576)
Pipeline and gas gathering assets	(3,859)	(3,424)
Other fixed assets	(1,053)	(1,374)
Proceeds from other fixed asset disposals		14
Net cash used in investing activities	(252,192)	(192,360)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	145,000	38,600
Payments on revolving credit facilities		(177,500)
Payments on term loan		(100,000)
Issuance of 2019 Notes		350,000
Payments for loan costs		(10,210)
Net cash provided by financing activities	145,000	100,890
Net decrease in cash and cash equivalents	(15,790)	(15,482)
Cash and cash equivalents, beginning of period	28,002	31,235
Cash and cash equivalents, end of period	$ 12,212	$ 15,753
Supplemental disclosure of cash flow information:		
Cash paid during the period:		

Interest, net of $379 and zero, respectively, of capitalized interest	$	26,726	$	3,691

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

Table of Contents

Laredo Petroleum Holdings, Inc.

Condensed notes to the consolidated financial statements

(Unaudited)

A Organization

Laredo Petroleum Holdings, Inc. (Laredo Holdings) together with its subsidiaries, is an independent energy company focused on the exploration, development and acquisition of oil and natural gas properties in the Permian and Mid-Continent regions of the United States. Laredo Holdings was incorporated pursuant to the laws of the State of Delaware on August 12, 2011 for the purposes of a Corporate Reorganization (as defined below) and the initial public offering of its common stock (the IPO) on December 20, 2011. As a holding company, Laredo Holdings management operations are conducted through its wholly-owned subsidiary, Laredo Petroleum, Inc. (Laredo), a Delaware corporation, and Laredo s subsidiaries, Laredo Petroleum Texas, LLC (Laredo Texas), a Texas limited liability company, Laredo Gas Services, LLC (Laredo Gas), a Delaware limited liability company, and Laredo Petroleum Dallas, Inc. (Laredo Dallas), a Delaware corporation.

On July 1, 2011, Laredo Petroleum, LLC (Laredo LLC), a Delaware limited liability company, and Laredo completed the acquisition of Broad Oak Energy, Inc., a Delaware corporation (Broad Oak), for a combination of equity and cash. Prior to the acquisition, Broad Oak was owned by its management and Warburg Pincus Private Equity, L.P. (Warburg Pincus IX). On July 19, 2011, Broad Oak s name was changed to Laredo Petroleum Dallas Inc.

On December 19, 2011, immediately prior to the IPO, Laredo LLC merged with and into Laredo Holdings, with Laredo Holdings being the surviving entity. Warburg Pincus IX and other affiliates of Warburg Pincus LLC were majority owners of Laredo LLC and are of Laredo Holdings. The preferred units and certain series of restricted units of Laredo LLC were exchanged into shares of common stock of Laredo Holdings based on the pre-offering equity value of such units (the Corporate Reorganization). The common stock has one vote per share and a par value of $0.01 per share.

In these notes, the Company, when used in the present tense, prospectively or for historical periods since December 19, 2011, refers to Laredo Holdings, Laredo and its subsidiaries collectively, and for historical periods prior to December 19, 2011 refers to Laredo LLC, Laredo and its subsidiaries collectively, unless the context indicates otherwise.

B Basis of presentation and significant accounting policies

1. Basis of presentation

The accompanying 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 Broad Oak acquisition discussed in Note A was accounted for in a manner similar to a pooling of interests and the historical financial statements present the assets and liabilities of Laredo Holdings and its subsidiaries and Broad Oak at historical carrying values and their operations as if they were consolidated for all periods presented. All material intercompany transactions and account balances have been eliminated in the consolidation of accounts. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company operates oil and natural gas properties as one business segment, which explores, develops and produces oil and natural gas.

The accompanying consolidated financial statements have not been audited by the Company s independent registered public accounting firm, except that the consolidated balance sheet at December 31, 2011 is derived from the Company s audited consolidated financial statements. In the opinion of management, the accompanying consolidated financial statements reflect all necessary adjustments to present fairly the Company s financial position at March 31, 2012 and the results of its operations and cash flows for the three months ended March 31, 2012 and 2011. All such adjustments are of a normal recurring nature.

Table of Contents

Certain disclosures have been condensed or omitted from these unaudited consolidated financial statements. Accordingly, these consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Laredo Holdings Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Annual Report).

2. Use of estimates in the preparation of interim consolidated financial statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management of the Company 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 from these estimates. The interim results reflected in the unaudited consolidated financial statements are not necessarily indicative of the results that may be expected for other interim periods or for the full year.

Significant estimates include, but are not limited to, estimates of the Company s reserves of oil and natural gas, future cash flows from oil and natural gas properties, depreciation, depletion and amortization, asset retirement obligations, stock-based compensation, deferred income taxes and fair values of commodity, interest rate derivatives and commodity deferred premiums. As fair value is a market-based measurement, it is determined based on the assumptions that market participants would use. These estimates and assumptions are based on management s best judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets and volatile equity and energy markets have combined to increase the uncertainty inherent in such estimates and assumptions. Management believes its estimates and assumptions to be reasonable under the circumstances. As future events and their effects cannot be determined with precision, actual results could differ from these estimates. Any changes in estimates resulting from future changes in the economic environment will be reflected in the financial statements in future periods.

3. Accounts receivable

The Company sells oil and natural gas to various customers and participates with other parties in the drilling, completion and operation of oil and natural gas wells. Joint interest and oil and natural gas sales receivables related to these operations are generally unsecured. Accounts receivable for joint interest billings are recorded as amounts billed to customers less an allowance for doubtful accounts. Amounts are considered past due after 30 days. The Company determines joint interest operations accounts receivable allowances based on management s assessment of the creditworthiness of the joint interest owners and as the operator in the majority of its wells the ability to realize the receivables through netting of anticipated future production revenues. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses, current receivables aging, and existing industry and national economic data. The Company reviews its allowance for doubtful accounts quarterly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote.

Accounts receivable consist of the following components as of March 31, 2012 and December 31, 2011:

(in thousands)		March 31, 2012		December 31, 2011
Oil and natural gas sales	$	53,102	$	49,434
Joint operations(1)		35,279		24,190
Other		555		511
Total, net	$	88,936	$	74,135

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(1) Accounts receivable for joint operations are presented net of an allowance for doubtful accounts of approximately $0.1 million at each of March 31, 2012 and December 31, 2011.

Table of Contents

4. Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to fluctuations in the prices of oil and natural gas. By removing a significant portion of the price volatility associated with future production, the Company expects to mitigate, but not eliminate, the potential effects of variability in cash flows from operations due to fluctuations in commodity prices. These transactions are primarily in the form of collars, swaps, puts and basis swaps. In addition, the Company enters into derivative contracts in the form of interest rate derivatives to minimize the effects of fluctuations in interest rates.

Derivative instruments are recorded at fair value and are included on the consolidated balance sheets as assets or liabilities. The Company netted the fair value of derivative instruments by counterparty in the accompanying consolidated balance sheets where the right of offset exists. The Company determines the fair value of its derivative financial instruments utilizing pricing models for significantly similar instruments. Inputs to the pricing models include publicly available prices and forward price curves generated from a compilation of data gathered from third parties.

The Company s derivatives were not designated as hedges for financial statement purposes for any of the periods presented. Accordingly, the changes in fair value are recognized in the consolidated statements of operations in the period of change. Realized and unrealized gains and losses on derivatives are included in cash flows from operating activities (see Note F).

5. Other current assets and liabilities

Other current assets consist of the following components as of March 31, 2012 and December 31, 2011:

(in thousands)		**March 31, 2012**		**December 31, 2011**
Prepaid expenses	$	8,380	$	2,131
Materials and supplies		141		187
Total other current assets	$	8,521	$	2,318

Other current liabilities consist of the following components as of March 31, 2012 and December 31, 2011:

(in thousands)		**March 31, 2012**		**December 31, 2011**
Lease operating expense accrual	$	4,868	$	5,297
Prepaid drilling liability		3,549		2,378
Production taxes payable		1,359		1,493
Current portion of asset retirement obligations		480		506
Other accrued liabilities		5,806		5,245
Total other current liabilities	$	16,062	$	14,919

6. Property and equipment

The following table sets forth the Company s property and equipment:

(in thousands)	March 31, 2012	December 31, 2011
Proved oil and gas properties	$ 2,305,565	$ 2,083,015
Less accumulated depletion and impairment	934,599	884,533
Proved oil and gas properties, net	1,370,966	1,198,482
Unproved oil and gas properties not being amortized	119,203	117,195
Pipeline and gas gathering assets	59,995	58,136
Less accumulated depreciation	7,128	6,394
Pipeline and gas gathering assets, net	52,867	51,742
Other fixed assets	19,994	16,948
Less accumulated depreciation and amortization	6,581	5,858
Other fixed assets, net	13,413	11,090
Total property and equipment, net	$ 1,556,449	$ 1,378,509

Table of Contents

For the three months ended March 31, 2012 and 2011, depletion expense was $19.65 per barrel of oil equivalent (BOE) and $16.59 per BOE, respectively.

7. Deferred loan costs

Loan origination fees are stated at cost, net of amortization, which are amortized over the life of the respective debt agreements on a basis that represents the effective interest method. The Company capitalized zero and $10.2 million of deferred loan costs in the three months ended March 31, 2012 and 2011, respectively. The Company had total deferred loan costs of $22.4 million and $23.5 million, net of accumulated amortization of $5.5 million and $4.4 million, as of March 31, 2012 and December 31, 2011, respectively.

During the three months ended March 31, 2011, the Company wrote off approximately $3.2 million in deferred loan costs as a result of the retirement of debt and changes in the borrowing base of the Senior Secured Credit Facility (as defined in Note C). No deferred loan costs were written off in the three months ended March 31, 2012.

Future amortization expense of deferred loan costs at March 31, 2012 is as follows:

(in thousands)		
Remaining 2012	$	3,180
2013		4,240
2014		4,240
2015		4,240
2016		2,993
Thereafter		3,504
Total	$	22,397

8. Asset retirement obligations

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

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

The following reconciles the Company s asset retirement obligations liability as of March 31, 2012 and December 31, 2011:

(in thousands)	March 31, 2012	December 31, 2011
Liability at beginning of period	$ 13,074	$ 8,278
Liabilities added due to acquisitions, drilling and other	874	1,519
Accretion expense	264	616
Liabilities settled upon plugging and abandonment	(26)	(340)
Revision of estimates		3,001
Liability at end of period	$ 14,186	$ 13,074

Table of Contents

9. Fair value measurements

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, undistributed revenue and royalties, and other accrued liabilities approximate their fair values. See Note C for fair value disclosures related to the Company s debt obligations. The Company carries its derivative financial instruments at fair value. See Note F and Note G for details regarding the fair value of the Company s derivative financial instruments.

10. Compensation awards

For stock-based compensation awards, compensation expense is recognized in Stock-based compensation in the Company s consolidated statements of operations over the awards vesting periods based on their grant date fair value. The Company utilizes the closing stock price on the date of grant to determine the fair value of service vesting restricted stock awards and a Black-Scholes pricing model to determine the fair values of service vesting restricted stock option awards. See Note D for further discussion of the restricted stock awards and restricted stock option awards.

For performance unit awards issued to management with a combination of market and service vesting criteria, a third-party prepared Monte Carlo simulation is utilized in order to determine the fair value. These awards are accounted for as liability awards as they will be settled in cash. The liability is included in Other noncurrent liabilities in the March 31, 2012 consolidated balance sheet. Compensation expense for these awards amounted to $0.5 million in the three months ended March 31, 2012 and is recognized in General and administrative in the Company s consolidated statements of operations.

11. Impairment of long-lived assets

Impairment losses are recorded on property and equipment used in operations and other long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount. Impairment is measured based on the excess of the carrying amount over the fair value of the asset. During the three months ended March 31, 2011, the Company recorded a $0.2 million write-down of materials and supplies. Other than the aforementioned write-down, for the three months ended March 31, 2012 and 2011, the Company did not record any additional impairment to property and equipment used in operations or other long-lived assets.

12. Environmental

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, which are often changing, 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. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. 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 at March 31, 2012 or December 31, 2011.

13. Related party transactions

The following table summarizes the net oil and natural gas sales (oil and natural gas sales less production taxes) received from the Company s related party and included in the consolidated statements of operations for the periods presented:

Table of Contents

(in thousands)	Three months ended March 31, 2012	2011
Net oil and natural gas sales(1)	$ 19,390	$ 15,440

The following table summarizes the amounts included in oil and natural gas sales receivable in the consolidated balance sheets for the periods presented:

(in thousands)	March 31, 2012	December 31, 2011
Oil and natural gas sales receivable(1)	$ 5,592	$ 6,845

(1) The Company has a gas gathering and processing arrangement with affiliates of Targa Resources, Inc. (Targa). Warburg Pincus IX, a majority stockholder of Laredo Holdings, and other affiliates of Warburg Pincus LLC hold investment interests in Targa. One of Laredo Holdings directors is on the board of directors of affiliates of Targa.

C Debt

1. Interest expense

The following amounts have been incurred and charged to interest expense for the three months ended March 31, 2012 and 2011:

(in thousands)	Three months ended March 31, 2012	2011
Cash payments for interest	$ 27,105	$ 3,691
Amortization of deferred loan costs and other adjustments	1,081	1,050
Change in accrued interest	(13,123)	5,775
Interest costs incurred	15,063	10,516
Less capitalized interest	(379)	
Total interest expense	$ 14,684	$ 10,516

The following table presents the weighted average interest rates and the weighted average outstanding debt balances for the three months ended March 31, 2012 and 2011:

	Three months ended March 31,			
	2012		2011	
(in thousands except for percentages)	Weighted Average Principal	Weighted Average Interest Rate(3)	Weighted Average Principal	Weighted Average Interest Rate(3)

Senior Secured Credit Facility	$	167,198	0.55%	$	177,500	0.20%
91/2% 2019 Notes		550,000	2.37%		350,000	1.85%
Term Loan(1)					100,000	0.51%
Broad Oak Credit Facility(2)					58,363	3.29%

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(1) Laredo s Second Lien Term Loan Agreement was entered into on July 7, 2010 and was paid-in-full and terminated on January 20, 2011.

(2) The Broad Oak revolving credit facility was paid-in-full and terminated on July 1, 2011.

(3) Interest rates presented are annual rates which have been prorated to reflect the portion of the year for which they have been applied.

Table of Contents

2. 2019 Notes

On January 20, 2011, Laredo completed an offering of $350 million 91/2% Senior Notes due 2019 (the January Notes) and on October 19, 2011, Laredo completed an offering of an additional $200 million 91/2% Senior Notes due 2019 (the October 2011 Notes and together with the January Notes, the 2019 Notes). The 2019 Notes will mature on February 15, 2019 and bear an interest rate of 9.5% per annum payable semi-annually, in cash, in arrears on February 15 and August 15 of each year. The 2019 Notes are fully and unconditionally guaranteed, jointly and severally on a senior unsecured basis, by Laredo Holdings and (other than Laredo) its subsidiaries (collectively, the Guarantors).

In connection with the issuance of the 2019 Notes, Laredo and the Guarantors entered into registration rights agreements with the initial purchasers of the 2019 Notes, pursuant to which Laredo and the Guarantors agreed to file with the Securities and Exchange Commission (SEC) and use commercially reasonable efforts to cause to become effective a registration statement with respect to an offer to exchange the 2019 Notes for substantially identical notes (other than with respect to restrictions on transfer or to any increase in annual interest rate) registered under the Securities Act of 1933, as amended (the Securities Act). The offer to exchange the 2019 Notes for substantially identical notes registered under the Securities Act was consummated on January 13, 2012.

3. Senior secured credit facility

Laredo s $1.0 billion revolving Third Amended and Restated Credit Agreement (as amended, the Senior Secured Credit Facility), which matures July 1, 2016, had a borrowing base of $712.5 million with $230.0 million outstanding and was subject to an interest rate of approximately 2.25% at March 31, 2012. The Senior Secured Credit Facility contains both financial and non-financial covenants and the Company was in compliance with these covenants at March 31, 2012.

Additionally, the Senior Secured Credit Facility provides for the issuance of letters of credit, limited to the lesser of total capacity or $20.0 million. At March 31, 2012, Laredo had one letter of credit outstanding totaling $0.03 million under the Senior Secured Credit Facility.

Subsequent to March 31, 2012, the Senior Secured Credit Facility was amended to allow for the issuance of an additional $500 million in aggregate principal amount of senior unsecured notes. The Company paid down the Senior Secured Credit Facility using the proceeds from the offering of the 2022 Notes (as defined below) and the borrowing base increased to $785.0 million pursuant to an amendment to the Senior Secured Credit Facility. See Note N for additional discussion of the 2022 Notes offering and the borrowing base increase.

4. Fair value of debt

The Company has not elected to account for its debt instruments at fair value. The following table presents the carrying amount and fair value of the Company s debt instruments at March 31, 2012 and December 31, 2011:

(in thousands)	March 31, 2012 Carrying value	March 31, 2012 Fair value	December 31, 2011 Carrying value	December 31, 2011 Fair value
2019 Notes(1)	$ 551,913	$ 599,500	$ 551,961	$ 585,750
Senior Secured Credit Facility	230,000	229,994	85,000	84,893
Total value of debt	$ 781,913	$ 829,494	$ 636,961	$ 670,643

(1) The carrying value of the 2019 Notes includes the October 2011 Notes unamortized bond premium of approximately $1.9 million and $2.0 million as of March 31, 2012 and December 31, 2011, respectively.

At March 31, 2012 and December 31, 2011, the fair value of the debt outstanding on the 2019 Notes was determined using the March 31, 2012 and December 31, 2011 quoted market price (Level 1), respectively, and the fair value of the outstanding debt on the Senior Secured Credit Facility was estimated utilizing pricing models for similar instruments (Level 2). See Note G for information about fair value hierarchy levels.

Table of Contents

D Stock-based compensation

In November 2011, the Board of Directors of Laredo Holdings and its stockholders approved a Long-Term Incentive Plan (the LTIP), which provides for the granting of incentive awards in the form of stock options, restricted stock awards and other awards. The LTIP provides for the issuance of 10.0 million shares.

The Company recognizes the fair value of stock-based payments to employees and directors as a charge against earnings. The Company recognizes stock-based payment expense over the requisite service period. Laredo Holdings stock-based payment awards are accounted for as equity instruments. Stock-based compensation is included in Stock-based compensation in the consolidated statements of operations.

Restricted stock awards

All restricted shares are treated as issued and outstanding in the accompanying consolidated financial statements. See Note K for additional information regarding the treatment of restricted shares for purposes of calculating net income per share. If an employee terminates employment prior to the restriction lapse date, the awarded shares are forfeited and cancelled and are no longer considered issued and outstanding. Restricted stock awards converted in the Corporate Reorganization vested 20% at the grant date and then vest 20% annually thereafter. The restricted stock awards granted under the LTIP vest 33%, 33% and 34% per year beginning on the first anniversary date of the grant. The following table reflects the outstanding restricted stock awards for the three months ended March 31, 2012:

(in thousands, except for weighted-average grant date fair values)	Restricted stock awards	Weighted-average grant date fair value
Outstanding at December 31, 2011	911	$ 1.14
Granted	605	24.12
Forfeited	(75)	14.12
Vested	(144)	0.44
Outstanding at March 31, 2012	1,297	$ 11.15

Restricted stock option awards

Restricted stock options granted under the LTIP vest and are exercisable in four equal installments on each of the first four anniversaries of the date of the grant. The following table reflects the stock option award activity for the three months ended March 31, 2012:

(in thousands, except for grant date fair values)	Restricted stock option awards	Weighted-average exercise price (per option)	Weighted-average contractual term (years)
Outstanding at December 31, 2011		$	
Granted	603	24.11	10

Forfeited	(50)		24.11	10
Outstanding at March 31, 2012	553	$	24.11	10
Vested and exercisable at end of period				

The Company used the Black-Scholes option pricing model to determine the fair value of restricted stock options and is recognizing the associated expense on a straight-line basis over the four year requisite service period of the awards. Determining the fair value of equity-based awards requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, and the associated volatility.

The assumptions used to estimate the fair value of options granted on February 3, 2012 are as follows:

Risk-free interest rate(1)		1.07%
Expected option life(2)		6.01
Expected volatility(3)		60.18%
Fair value per option	$	13.36

(1) U.S. Treasury yields as of the grant date were utilized for the risk-free interest rate assumption, matching the treasury yield terms to the expected life of the option.

(2) As the Company has no historical exercise history, expected option life assumptions were developed using the simplified method in accordance with GAAP.

(3) The Company utilized a peer historical look-back, weighted with the Company s own volatility since the IPO, to develop the expected volatility.

Table of Contents

E Income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company is subject to corporate income taxes and the Texas margin tax. Income tax expense for the three months ended March 31, 2012 and 2011 consisted of the following:

	Three months ended March 31,	
(in thousands)	**2012**	**2011**
Current taxes		
Federal	$	$
State		
Deferred taxes		
Federal	(13,792)	(2,274)
State	(965)	(323)
Income tax expense	$ (14,757)	$ (2,597)

Table of Contents

Income tax expense differed from amounts computed by applying the federal income tax rate of 34% to pre-tax loss from operations as a result of the following:

(in thousands)	Three months ended March 31, 2012	2011
Income tax expense computed by applying the statutory rate	$ (13,937)	$ (2,471)
State income tax, net of federal tax benefit and increase in valuation allowance	(505)	289
Income from non-taxable entity		10
Non-deductible compensation	(380)	(100)
Change in valuation allowance	(1)	191
Other items	66	(516)
Income tax expense	$ (14,757)	$ (2,597)

Significant components of the Company s deferred tax assets as of March 31, 2012 and December 31, 2011 are as follows:

(in thousands)	March 31, 2012	December 31, 2011
Derivative financial instruments	$ 4,208	$ 3,551
Oil and natural gas properties and equipment	(108,528)	(87,138)
Net operating loss carry-forward	185,563	180,740
Other	228	(926)
	81,471	96,227
Valuation allowance	(650)	(649)
Net deferred tax asset	$ 80,821	$ 95,578

Net deferred tax assets and liabilities were classified in the consolidated balance sheets as follows:

(in thousands)	March 31, 2012	December 31, 2011
Deferred tax asset	$ 80,821	$ 95,578
Deferred tax liability		
Net deferred tax assets	$ 80,821	$ 95,578

The Company had federal net operating loss carry-forwards totaling approximately $526.1 million and state net operating loss carry-forwards totaling approximately $173.8 million at March 31, 2012. These carry-forwards begin expiring in 2026. The Company maintains a valuation allowance to reduce certain deferred tax assets to amounts that are more likely than not to be realized. At March 31, 2012, a $0.6 million valuation allowance has been recorded against the state of Louisiana deferred tax asset and a $0.03 million valuation allowance has been recorded against the Company s charitable contribution carry-forward. The Company believes the federal and state of Oklahoma net operating loss carry-forwards are fully realizable. The Company considered all available evidence, both positive and negative, in determining whether, based on the weight of that evidence, a valuation allowance was needed. Such consideration included estimated future projected earnings based on existing reserves and projected future cash flows from its oil and natural gas reserves (including the timing of those cash flows), the reversal of deferred tax liabilities recorded at March 31, 2012 and the Company s ability to capitalize intangible drilling costs, rather than expensing these costs, in order to prevent an operating loss carry-forward from expiring unused.

The Company s income tax returns for the years 2008 through 2010 remain open and subject to examination by federal tax authorities and/or the tax authorities in Oklahoma, Texas and Louisiana which are the jurisdictions where the Company has or had operations. Additionally, the statute of limitations for examination of federal net operating loss carryovers typically does not begin to run until the year the attribute is utilized in a tax return. In evaluating its current tax positions in order to identify any material uncertain tax positions, the Company

Table of Contents

developed a policy in identifying uncertain tax positions that considers support for each tax position, industry standards, tax return disclosures and schedules, and the significance of each position. The Company had no material adjustments to its unrecognized tax benefits during the three months ended March 31, 2012.

F Derivative financial instruments

1. Commodity derivatives

The Company engages in derivative transactions such as collars, swaps, puts and basis swaps to hedge price risks due to unfavorable changes in oil and natural gas prices related to its oil and natural gas production. As of March 31, 2012, the Company had 52 open derivative contracts with financial institutions, none of which were designated as hedges, which extend from April 2012 to December 2015. The contracts are recorded at fair value on the balance sheet and any realized and unrealized gains and losses are recognized in current year earnings.

Each collar transaction has an established price floor and ceiling. When the settlement price is below the price floor established by these collars, the Company receives an amount from its counterparty equal to the difference between the settlement price and the price floor multiplied by the hedged contract volume. When the settlement price is above the price ceiling established by these collars, the Company pays its counterparty an amount equal to the difference between the settlement price and the price ceiling multiplied by the hedged contract volume.

Each swap or put transaction has an established fixed price. When the settlement price is above the fixed price, the Company pays its counterparty an amount equal to the difference between the settlement price and the fixed price multiplied by the hedged contract volume. When the settlement price is below the fixed price, the counterparty pays the Company an amount equal to the difference between the settlement price and the fixed price multiplied by the hedged contract volume.

Each basis swap transaction has an established fixed differential between the NYMEX gas futures and West Texas WAHA (WAHA) index gas price. When the NYMEX futures settlement price less the fixed WAHA differential is greater than the actual WAHA price, the difference multiplied by the hedged contract volume is paid to the Company by the counterparty. When the difference between the NYMEX futures settlement price less the fixed WAHA differential is less than the actual WAHA price, the Company pays the counterparty an amount equal to the difference multiplied by the hedged contract volume.

During the three months ended March 31, 2012, the Company entered into additional commodity contracts to hedge a portion of its estimated future production. The following table summarizes information about these additional commodity derivative contracts. When aggregating multiple contracts, the weighted average contract price is disclosed.

	Aggregate volumes	Swap price	Floor price	Ceiling price	Contract period
Oil (volumes in Bbls):					
Price collar	270,000		$ 90.00	$ 126.50	April 2012 - December 2012

Price collar	240,000		$ 90.00	$ 118.35	January 2013 - December 2013
Price collar	198,000		$ 70.00	$ 140.00	January 2014 - December 2014
Put	360,000		$ 75.00		January 2014 - December 2014
Price collar	252,000		$ 75.00	$ 135.00	January 2015 - December 2015
Put	360,000		$ 75.00		January 2015 - December 2015
Natural gas (volumes in MMBtu):					
Swap	700,000	$ 2.72			April 2012 - October 2012
Price collar	700,000		$ 3.25	$ 3.90	April 2013 - October 2013

Table of Contents

The following table summarizes open positions as of March 31, 2012, and represents, as of such date, derivatives in place through December 31, 2015, on annual production volumes:

	Remaining year 2012	Year 2013	Year 2014	Year 2015
Oil Positions:				
Puts:				
Hedged volume (Bbls)	504,000	1,080,000	360,000	360,000
Weighted average price ($/Bbl)	$ 65.79	$ 65.00	$ 75.00	$ 75.00
Swaps:				
Hedged volume (Bbls)	549,000	600,000		
Weighted average price ($/Bbl)	$ 93.52	$ 96.32	$	$
Collars:				
Hedged volume (Bbls)	904,500	768,000	726,000	252,000
Weighted average floor price ($/Bbl)	$ 79.50	$ 79.38	$ 75.45	$ 75.00
Weighted average ceiling price ($/Bbl)	$ 118.09	$ 121.67	$ 129.09	$ 135.00
Natural Gas Positions:				
Puts:				
Hedged volume (MMBtu)	3,240,000	6,600,000		
Weighted average price ($/MMBtu)	$ 5.38	$ 4.00	$	$
Swaps:				
Hedged volume (MMBtu)	1,960,000			
Weighted average price ($/MMBtu)	$ 4.92	$	$	$
Collars:				
Hedged volume (MMBtu)	5,850,000	7,300,000	6,960,000	
Weighted average floor price ($/MMBtu)	$ 4.12	$ 3.93	$ 4.00	$
Weighted average ceiling price ($/MMBtu)	$ 5.79	$ 6.75	$ 7.03	$
Basis swaps:				
Hedged volume (MMBtu)	2,160,000	1,200,000		
Weighted average price ($/MMBtu)	$ 0.31	$ 0.33	$	$

The natural gas derivatives are settled based on NYMEX gas futures, the Northern Natural Gas Co. Demarcation price or the Panhandle Eastern Pipe Line spot price of natural gas for the calculation period. The oil derivatives are settled based on the month s average daily NYMEX price of West Texas Intermediate Light Sweet Crude Oil. Each basis swap transaction is settled based on the differential between the NYMEX gas futures and WAHA index gas price.

2. Interest rate derivatives

The Company is exposed to market risk for changes in interest rates related to its Senior Secured Credit Facility. Interest rate derivative agreements are used to manage a portion of the exposure related to changing interest rates by converting floating-rate debt to fixed-rate debt. If LIBOR is lower than the fixed rate in the contract, the Company is required to pay the counterparties the difference, and conversely, the counterparties are required to pay the Company if LIBOR is higher than the fixed rate in the contract. The Company did not designate the interest rate derivatives as cash flow hedges; therefore, the changes in fair value of these instruments are recorded in current earnings.

Table of Contents

The following presents the settlement terms of the interest rate derivatives at March 31, 2012:

(in thousands except rate data)	Year 2012	Year 2013	Expiration date
Notional amount	$ 110,000		
Fixed rate	3.41%		June 5, 2012
Notional amount	$ 30,000		
Fixed rate	1.60%		June 5, 2012
Notional amount	$ 20,000		
Fixed rate	1.35%		June 5, 2012
Notional amount	$ 50,000	$ 50,000	
Fixed rate	1.11%	1.11%	September 13, 2013
Notional amount	$ 50,000	$ 50,000	
Cap rate	3.00%	3.00%	September 13, 2013
Total	$ 260,000	$ 100,000	

3. Balance sheet presentation

The Company s oil and natural gas commodity derivatives and interest rate derivatives are presented on a net basis in Derivative financial instruments in the consolidated balance sheets.

The following summarizes the fair value of derivatives outstanding on a gross basis as of:

(in thousands)	March 31, 2012	December 31, 2011
Assets:		
Commodity derivatives:		
Oil derivatives	$ 15,081	$ 16,026
Natural gas derivatives	42,594	34,019
Interest rate derivatives	2	11
	$ 57,677	$ 50,056
Liabilities:		
Commodity derivatives:		
Oil derivatives(1)	$ 39,341	$ 28,044
Natural gas derivatives(2)	6,098	6,832
Interest rate derivatives	1,201	1,991
	$ 46,640	$ 36,867

(1) The oil derivatives fair value is presented net of deferred premium liability of $18.4 million and $13.4 million at March 31, 2012 and December 31, 2011, respectively.

(2) The natural gas derivatives fair value is presented net of deferred premium liability of $4.7 million and $5.4 million at March 31, 2012 and December 31, 2011, respectively.

By using derivative instruments to economically hedge exposures to changes in commodity prices and interest rates, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk. The Company s counterparties are participants in the Senior Secured Credit Facility which is secured by the Company s oil and natural gas reserves; therefore, the Company is not required to post any collateral. The Company does not require collateral from its counterparties. The Company minimizes the credit risk in derivative instruments by: (i) limiting its exposure to any single counterparty; (ii) entering into derivative instruments only with counterparties that are also lenders in the Senior Secured Credit Facility and meet the Company s minimum credit quality standard, or have a guarantee from an affiliate that meets the Company s minimum credit quality standard; and (iii) monitoring the creditworthiness of the Company s counterparties on an ongoing basis. In accordance with the Company s standard practice, its commodity and interest

Table of Contents

rate derivatives are subject to counterparty netting under agreements governing such derivatives and, therefore, the risk of such loss is somewhat mitigated at March 31, 2012.

4. Gain (loss) on derivatives

Gains and losses on derivatives are reported on the consolidated statements of operations in the respective Realized and unrealized gain (loss) amounts. Realized gains (losses), represent amounts related to the settlement of derivative instruments, and for commodity derivatives, are aligned with the underlying production. Unrealized gains (losses) represent the change in fair value of the derivative instruments and are non-cash items.

The following represents the Company s reported gains and losses on derivative instruments for the three months ended March 31, 2012 and 2011:

	Three months ended March 31,	
(in thousands)	**2012**	**2011**
Realized gains (losses):		
Commodity derivatives	$ 4,708	$ 653
Interest rate derivatives	(1,103)	(1,301)
	3,605	(648)
Unrealized gains (losses):		
Commodity derivatives	(4,114)	(28,687)
Interest rate derivatives	780	1,183
	(3,334)	(27,504)
Total gains (losses):		
Commodity derivatives	594	(28,034)
Interest rate derivatives	(323)	(118)
	$ 271	$ (28,152)

G Fair value measurements

The Company accounts for its oil and natural gas commodity and interest rate derivatives at fair value (see Note F). The fair value of derivative financial instruments is determined utilizing pricing models for similar instruments. The models use a variety of techniques to arrive at fair value, including quotes and pricing analysis. Inputs to the pricing models include publicly available prices and forward curves generated from a compilation of data gathered from third parties.

The Company has categorized its assets and liabilities measured at fair value, based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1	Assets and liabilities recorded at fair value for which values are based on unadjusted quoted prices for identical assets or liabilities in an active market that management has the ability to access. Active markets are considered to be those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Table of Contents

Level 2	Assets and liabilities recorded at fair value for which values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Substantially all of these inputs are observable in the marketplace throughout the full term of the price risk management instrument, can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace.
Level 3	Assets and liabilities recorded at fair value for which values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs that are not corroborated by market data. These inputs reflect management s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

When the inputs used to measure fair value fall within different levels of the hierarchy in a liquid environment, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company conducts a review of fair value hierarchy classifications on an annual basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Transfers between fair value hierarchy levels are recognized and reported in the period in which the transfer occurred. No transfers between fair value hierarchy levels occurred during the three months ended March 31, 2012 and 2011.

Fair value measurement on a recurring basis

The following presents the Company s fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at March 31, 2012 and December 31, 2011.

(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
As of March 31, 2012:				
Commodity derivatives	$	$ 35,297	$	$ 35,297
Deferred premiums			(23,061)	(23,061)
Interest rate derivatives		(1,199)		(1,199)
Total	$	$ 34,098	$ (23,061)	$ 11,037

(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
As of December 31, 2011:				
Commodity derivatives	$	$ 34,037	$	$ 34,037
Deferred premiums			(18,868)	(18,868)
Interest rate derivatives		(1,980)		(1,980)
Total	$	$ 32,057	$ (18,868)	$ 13,189

These items are included in Derivative financial instruments on the consolidated balance sheets. Significant Level 2 assumptions associated with the calculation of discounted cash flows used in the mark-to-market analysis of commodity derivatives include the NYMEX natural gas and crude oil prices, appropriate risk adjusted discount rates and other relevant data. Significant Level 2 assumptions associated with the calculation of discounted cash flows used in the mark-to-market analysis of interest rate swaps include the interest rate curves, appropriate risk adjusted discount rates and other relevant data.

Table of Contents

The Company s deferred premiums associated with its commodity derivative contracts are categorized in 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 on are measured on a recurring basis. As commodity 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 (historical input rates range from 2.06% to 3.56%) and then amortizing the change in net present value into interest expense over the period from trade until the final settlement date at the end of the contract. After this initial valuation the net present value of each deferred premium is not adjusted, therefore significant increases (decreases) in the Senior Secured Credit Facility rate would result in a significantly lower (higher) fair value measurement for each new deal containing a deferred premium entered into, however the valuation for the deals 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; therefore on a quarterly basis, the valuation is compared to counterparty valuations and third party valuation of the deferred premiums for reasonableness. A summary of the changes in assets classified as Level 3 measurements for the three months ended March 31, 2012 and 2011 are as follows:

(in thousands)	**Derivative option contracts**	**Deferred premiums**
Balance of Level 3 at December 31, 2011(1)	$	$ (18,868)
Realized and unrealized gains included in earnings		
Amortization of deferred premiums		(150)
Total purchases and settlements:		
Purchases		(5,375)
Settlements		1,332
Balance of Level 3 at March 31, 2012	$	$ (23,061)
Change in unrealized losses attributed to earnings relating to derivatives still held at March 31, 2012	$	$

(in thousands)	**Derivative option contracts**	**Deferred premiums**
Balance of Level 3 at December 31, 2010	$ 20,026	$ (12,495)
Realized and unrealized losses included in earnings	(7,109)	
Amortization of deferred premiums		(107)
Total purchases and settlements:		
Purchases	(61)	
Settlements		21
Balance of Level 3 at March 31, 2011	$ 12,856	$ (12,581)
Change in unrealized gains attributed to earnings relating to derivatives still held at March 31, 2011	$ (8,668)	$

(1) The Company transferred the commodity derivative option contracts out of Level 3 during the year ended December 31, 2011 due to the Company s ability to utilize transparent forward price curves and volatilities published and available through independent third party vendors. As a result, the Company transferred positions from Level 3 to Level 2 as the significant inputs used to calculate the fair value are all observable.

Table of Contents

Fair value measurement on a nonrecurring basis

The Company accounts for additions to its asset retirement obligation (see Note B.8) and impairment of long-lived assets (see Note B.11), if any, at fair value on a nonrecurring basis in accordance with GAAP. For purposes of fair value measurement, it was determined that the impairment of long-lived assets and the additions to the asset retirement obligation are classified as Level 3 based on the use of internally developed cash flow models. No impairments of long-lived assets were recorded in the three months ended March 31, 2012.

Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including, in addition to those noted above, the ultimate settlement of these amounts, the ultimate timing of such settlement, and changes in legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment will be made to the asset balance.

Asset retirement obligations. The accounting policies for asset retirement obligations are discussed in Note B.8, including a reconciliation of the Company s asset retirement obligation. The fair value of additions to the asset retirement obligation liability is measured using valuation techniques consistent with the income approach, which converts future cash flows to a single discounted amount. Significant inputs to the valuation include: (i) estimated plug and abandonment cost per well based on Company experience; (ii) estimated remaining life per well based on the reserve life per well; (iii) future inflation factors; and (iv) the Company s average credit adjusted risk free rate.

Impairment of oil and natural gas properties. The accounting policies for impairment of oil and natural gas properties are discussed in the audited consolidated financial statements and notes thereto included in the 2011 Annual Report. 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.

H Credit risk

The Company s oil and natural gas sales are to a variety of purchasers, including intrastate and interstate pipelines or their marketing affiliates and independent marketing companies. The Company s joint operations accounts receivable are from a number of oil and natural gas companies, partnerships, individuals and others who own interests in the properties operated by the Company. Management believes that any credit risk imposed by a concentration in the oil and natural gas industry is offset by the creditworthiness of the Company s customer base and industry partners. The Company routinely assesses the recoverability of all material trade and other receivables to determine collectability.

The Company uses derivative instruments to hedge its exposure to oil and natural gas price volatility and its exposure to interest rate risk associated with the Senior Secured Credit Facility. These transactions expose the Company to potential credit risk from its counterparties. In accordance with the Company s standard practice, its derivative instruments are subject to counterparty netting under agreements governing such derivatives and therefore, the credit risk associated with its derivative counterparties is somewhat mitigated. See Note F for additional information regarding the Company s derivative instruments.

21

Table of Contents

I Commitments and contingencies

1. Lease commitments

The Company leases equipment and office space under operating leases expiring on various dates through 2016. Minimum annual lease commitments at March 31, 2012 and for the calendar years following are:

(in thousands)		
Remaining 2012	$	1,064
2013		1,448
2014		1,102
2015		731
2016		282
Total	$	4,627

The following table presents rent expense for the three months ended March 31, 2012 and 2011, respectively.

	Three months ended March 31,			
(in thousands)		2012		2011
Rent expense	$	307	$	283

The Company s office space lease agreements contain scheduled escalation in lease payments during the term of the lease. In accordance with GAAP, the Company records rent expense on a straight-line basis and a deferred lease liability for the difference between the straight-line amount and the actual amounts of the lease payments.

2. Litigation

The Company may be involved in legal proceedings or is subject to industry rulings that could bring rise to claims in the ordinary course of business. The Company has concluded that the likelihood is remote that the ultimate resolution of any pending litigation or pending claims will be material or have a material adverse effect on the Company s business, financial position, results of operations or liquidity.

3. Drilling contracts

The Company has committed to several short-term drilling contracts with various third parties in order to complete its various drilling projects. The contracts contain an early termination clause that requires the Company to pay significant penalties to the third party should the Company cease drilling efforts. These penalties could significantly impact the Company s financial statements upon contract termination. These commitments are not recorded in the accompanying consolidated balance sheets. Future commitments as of March 31, 2012 are $27.2 million. Management does not anticipate canceling any drilling contracts or discontinuing drilling efforts in 2012.

4. 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 state and federal regulations and these regulations will not have a material adverse impact on the financial position or results of operations of the Company. Because these rules and regulations are frequently amended or reinterpreted, the Company is unable to predict the future cost or impact of complying with these regulations.

Table of Contents

J Defined contribution plans

The Company sponsors a 401(k) defined contribution plan for the benefit of substantially all employees at the date of hire. The plan allows eligible employees to make tax-deferred contributions up to 100% of their annual compensation, not to exceed annual limits established by the federal government. The Company makes matching contributions of up to 6% of an employee s compensation and may make additional discretionary contributions for eligible employees. Employees are 100% vested in the employer contributions upon receipt.

The following table presents total contributions to the plans for the three months ended March 31, 2012 and 2011.

(in thousands)	Three months ended March 31, 2012		Three months ended March 31, 2011	
Contributions	$	317	$	529

K Income per share

Basic net income per share is computed by dividing net income by the weighted-average number of shares outstanding for the period. Diluted net income per share reflects the potential dilution of non-vested restricted stock awards. The effect of the Company s outstanding options to purchase 553,282 shares of common stock at $24.11 per share were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2012 because the exercise price of those options was greater than the average market price during the period, and therefore the inclusion of these outstanding options would have been anti-dilutive. The following is the calculation of basic and diluted weighted average shares outstanding and net income per share for the three months ended March 31, 2012:

(in thousands, except for per share data)	Three months ended March 31, 2012	
Income (numerator):		
Net income basic and diluted	$	26,235
Weighted average shares (denominator):		
Weighted average shares basic		126,803
Non-vested restricted stock		1,178
Weighted average shares diluted		127,981
Net income per share:		
Basic	$	0.21
Diluted	$	0.20

L Recently issued accounting standards

In December 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-11, *Disclosures about Offsetting Assets and Liabilities*, to improve reporting and transparency of offsetting (netting) assets and liabilities and the related effects on the financial statements. This ASU is effective for fiscal years and interim periods within those years beginning on or after January 1, 2013. The Company does not expect the adoption of this ASU to have a material effect on its consolidated financial statements.

M Subsidiary guarantees

Laredo Holdings and all of Laredo s wholly-owned subsidiaries (Laredo Gas, Laredo Texas and Laredo Dallas, collectively, the Subsidiary Guarantors) have fully and unconditionally guaranteed the 2019 Notes, the 2022 Notes (see Note N) and the Senior Secured Credit Facility. In accordance with practices accepted by the SEC, Laredo has prepared condensed consolidating financial statements in order to quantify the assets, results of operations and cash flows of such subsidiaries as subsidiary guarantors. The following condensed consolidating balance sheets as of March 31, 2012 and December 31, 2011, and condensed consolidating statements of operations and condensed consolidating statements of cash flows each for the three months ended March 31, 2012 and 2011, present financial information for Laredo Holdings as the parent of Laredo on a stand-alone basis (carrying any

Table of Contents

investments in subsidiaries under the equity method), 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 (carrying any investment in subsidiaries under the equity method), and the consolidation and elimination entries necessary to arrive at the information for the Company on a condensed consolidated basis. All deferred income taxes are recorded on Laredo s statements of financial position, as Laredo s subsidiaries are flow-through entities for income tax purposes. Prior to the Broad Oak acquisition on July 1, 2011, both Laredo and Laredo Dallas were separate taxable entities and deferred income taxes for the Company are recorded separately. The Subsidiary Guarantors are not restricted from making distributions to Laredo.

Condensed consolidating balance sheet

March 31, 2012

(in thousands)	**Laredo Holdings**	**Laredo**	**Subsidiary Guarantors**	**Intercompany eliminations**	**Consolidated company**
Accounts receivable	$	$ 64,370	$ 24,566	$	$ 88,936
Other current assets		44,201	186		