W&T OFFSHORE INC
Form 10-Q
November 01, 2012
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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 September 30, 2012

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 1-32414

W&T OFFSHORE, INC.

(Exact name of registrant as specified in its charter)

Texas	**72-1121985**
(State of incorporation)	**(IRS Employer Identification Number)**
Nine Greenway Plaza, Suite 300 Houston, Texas	**77046-0908**
(Address of principal executive offices)	**(Zip Code)**

(713) 626-8525

(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 ¨

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

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

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

Indicate by check mark whether the registrant is a shell company. Yes ¨ No x

As of October 29, 2012, there were 74,370,825 shares outstanding of the registrant s common stock, par value $0.00001.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012	December 31, 2011
	(In thousands, except share data)	
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 6,993	$ 4,512
Receivables:		
Oil and natural gas sales	68,230	98,550
Joint interest and other	21,105	25,804
Income tax receivable	14,284	
Total receivables	103,619	124,354
Deferred income taxes current portion		2,007
Restricted cash and cash equivalents	24,026	
Deposit for acquisition	22,800	
Prepaid expenses and other assets	32,455	30,315
Total current assets	189,893	161,188
Property and equipment at cost:		
Oil and natural gas properties and equipment (full cost method, of which $158,585 at September 30, 2012 and $154,516 at December 31, 2011 were excluded from amortization)	6,229,626	5,959,016
Furniture, fixtures and other	20,912	19,500
Total property and equipment	6,250,538	5,978,516
Less accumulated depreciation, depletion and amortization	4,556,548	4,320,410
Net property and equipment	1,693,990	1,658,106
Restricted deposits for asset retirement obligations	28,441	33,462
Other assets	14,328	16,169
Total assets	$ 1,926,652	$ 1,868,925
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 104,274	$ 75,871
Undistributed oil and natural gas proceeds	34,660	33,732
Asset retirement obligations	83,545	138,185
Accrued liabilities	32,331	29,705
Income taxes payable	350	10,392
Deferred income taxes current portion	2,945	
Total current liabilities	258,105	287,885
Long-term debt	719,000	717,000

Asset retirement obligations, less current portion	250,704	255,695
Deferred income taxes	98,393	58,881
Other liabilities	9,470	4,890
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $0.00001 par value; 20,000,000 shares authorized; 0 issued at September 30, 2012 and December 31, 2011		
Common stock, $0.00001 par value; 118,330,000 shares authorized; 77,242,660 issued and 74,373,487 outstanding at September 30, 2012; and 77,220,706 issued and 74,351,533 outstanding at December 31, 2011	1	1
Additional paid-in capital	396,601	386,920
Retained earnings	218,545	181,820
Treasury stock, at cost	(24,167)	(24,167)
Total shareholders equity	590,980	544,574
Total liabilities and shareholders equity	$ 1,926,652	$ 1,868,925

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share data) (Unaudited)			
Revenues	$ 185,946	$ 245,371	$ 637,345	$ 709,148
Operating costs and expenses:				
Lease operating expenses	53,411	58,899	170,349	159,901
Production taxes	1,353	1,050	4,174	2,183
Gathering and transportation	2,810	4,853	11,140	13,203
Depreciation, depletion, amortization and accretion	77,462	84,455	251,894	241,917
General and administrative expenses	18,691	18,104	62,793	54,235
Derivative (gain) loss	24,659	(17,323)	14,421	(10,815)
Total costs and expenses	178,386	150,038	514,771	460,624
Operating income	7,560	95,333	122,574	248,524
Interest expense:				
Incurred	14,791	14,721	43,409	36,913
Capitalized	(3,383)	(3,163)	(9,899)	(6,654)
Loss on extinguishment of debt		2,031		22,694
Other income	202	6	210	22
Income (loss) before income tax expense	(3,646)	81,750	89,274	195,593
Income tax expense (benefit)	(2,175)	28,822	33,959	68,841
Net income (loss)	$ (1,471)	$ 52,928	$ 55,315	$ 126,752
Basic and diluted earnings (loss) per common share	$ (0.02)	$ 0.70	$ 0.73	$ 1.68
Dividends declared per common share	$ 0.08	$ 0.04	$ 0.24	$ 0.12

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

	Common Stock Outstanding Shares	Common Stock Outstanding Value	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Value	Total Shareholders Equity
				(In thousands) (Unaudited)			
Balances at December 31, 2011	74,352	$ 1	$ 386,920	$ 181,820	2,869	$ (24,167)	$ 544,574
Cash dividends				(17,848)			(17,848)
Share-based compensation	21		9,137				9,137
Other			544	(742)			(198)
Net income				55,315			55,315
Balances at September 30, 2012	74,373	$ 1	$ 396,601	$ 218,545	2,869	$ (24,167)	$ 590,980

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2012	2011
	(In thousands) (Unaudited)	
Operating activities:		
Net income	$ 55,315	$ 126,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	251,894	241,917
Amortization of debt issuance costs	2,046	1,401
Loss on extinguishment of debt		22,694
Share-based compensation	9,137	6,437
Derivative (gain) loss	14,421	(10,815)
Cash payments on derivative settlements	(6,960)	(9,239)
Deferred income taxes	44,465	59,442
Changes in operating assets and liabilities:		
Oil and natural gas receivables	30,320	(2,913)
Joint interest and other receivables	3,935	7,465
Insurance receivables	500	18,971
Income taxes	(24,327)	(15,894)
Prepaid expenses and other assets	670	(22,601)
Asset retirement obligations	(63,150)	(51,349)
Accounts payable and accrued liabilities	32,311	23,892
Other liabilities	912	(109)
Net cash provided by operating activities	351,489	396,051
Investing activities:		
Acquisitions of property interests in oil and natural gas properties		(434,582)
Investment in oil and natural gas properties and equipment	(312,372)	(185,222)
Proceeds from sales of oil and natural gas properties and equipment	30,453	15
Change in restricted cash	(24,026)	
Deposit for acquisition	(22,800)	
Purchases of furniture, fixtures and other	(2,125)	(318)
Net cash used in investing activities	(330,870)	(620,107)
Financing activities:		
Issuance of 8.50% Senior Notes		600,000
Repurchase of 8.25% Senior Notes		(450,000)
Borrowings of long-term debt revolving bank credit facility	316,000	512,000
Repayments of long-term debt revolving bank credit facility	(314,000)	(418,000)
Repurchase premium and debt issuance costs	(2,081)	(31,997)
Dividends to shareholders	(17,848)	(8,936)
Other	(209)	
Net cash (used in) provided by financing activities	(18,138)	203,067
Increase (decrease) in cash and cash equivalents	2,481	(20,989)
Cash and cash equivalents, beginning of period	4,512	28,655

Cash and cash equivalents, end of period	$	6,993	$	7,666

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Operations. W&T Offshore, Inc. and subsidiaries, referred to herein as W&T, we or the Company, is an independent oil and natural gas producer focused primarily in the Gulf of Mexico and onshore Texas. The Company is active in the acquisition, exploration and development of oil and natural gas properties.

Interim Financial Statements. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the appropriate rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, the condensed consolidated financial statements do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Operating results for interim periods are not necessarily indicative of the results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Reclassifications. Certain reclassifications have been made to the prior periods financial statements to conform to the current presentation.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that 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 periods. Actual results could differ from those estimates.

2. Acquisitions and Divestitures

2012 Acquisitions. See Note 13 for information on an acquisition completed subsequent to September 30, 2012.

2012 Divestitures. On May 15, 2012, we sold our 40%, non-operating working interest in the South Timbalier 41 field located in the Gulf of Mexico for $30.5 million, net, with an effective date of April 1, 2012. The transaction was structured as a like-kind exchange under the Internal Revenue Service Code (IRC) Section 1031 and other applicable regulations, with funds held by a qualified intermediary until replacement purchases could be executed. Funds remaining from this sale to be used for replacement purchases are reported in current assets as restricted cash and cash equivalents on the balance sheet as of September 30, 2012. In connection with this sale, we reversed $4.0 million of asset retirement obligation (ARO).

2011 Acquisitions. On May 11, 2011, we completed the acquisition of approximately 24,500 gross acres (21,900 net acres) of oil and gas leasehold interests in the West Texas Permian Basin from Opal Resources LLC and Opal Resources Operating Company LLC (collectively, Opal) and, in 2011, we acquired minor amounts of undeveloped leasehold acreage in the related geography from another third party (collectively, with the properties acquired from Opal, the Yellow Rose Properties). The acquisitions were funded from cash on hand and borrowings under our revolving bank credit facility.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents the purchase price allocation for the acquisitions of the Yellow Rose Properties (in thousands):

Oil and natural gas properties and equipment	$ 396,902
Asset retirement obligations non-current	(382)
Long-term liability	(2,143)
Total cash paid	$ 394,377

On August 10, 2011, we completed the acquisition from Shell Offshore Inc. (Shell) of its 64.3% interest in the Fairway Field along with a like interest in the associated Yellowhammer gas treatment plant (collectively, the Fairway Properties). During the nine months ended September 30, 2012, the purchase price was reduced by $2.7 million. The purchase price is subject to further post-effective date adjustments and final settlement is expected to occur in the first half of 2013. The acquisition was funded from borrowings under our revolving bank credit facility.

The following table presents the purchase price allocation for the acquisition of the Fairway Properties (in thousands):

Oil and natural gas properties and equipment	$ 47,993
Asset retirement obligations non-current	(7,812)
Total cash paid	$ 40,181

For the three months ended September 30, 2011, the Yellow Rose Properties and the Fairway Properties accounted for $21.6 million of revenue, $8.8 million of direct operating expenses, $7.2 million of depreciation, depletion, amortization and accretion (DD&A) and $2.0 million of income taxes, resulting in $3.6 million of net income. For the nine months ended September 30, 2011, the Yellow Rose Properties and the Fairway Properties accounted for $32.8 million of revenue, $10.7 million of direct operating expenses, $9.6 million of DD&A and $4.4 million of income taxes, resulting in $8.1 million of net income. Such amounts are for the period from each respective close date to September 30, 2011. The net income attributable to these properties does not reflect certain expenses, such as general and administrative expenses and interest expense; therefore, this information is not intended to report results as if these operations were managed on a stand-alone basis. In addition, the Yellow Rose Properties and the Fairway Properties are not recorded in a separate entity for tax purposes; therefore, income tax was estimated using the federal statutory tax rate. Expenses associated with acquisition activities and transition activities related to these acquisitions for the three and nine months ended September 30, 2011 were $0.8 million and $1.4 million, respectively, and are included in general and administrative expenses.

Pro Forma Financial Information

Pro forma financial information has been prepared due to the Yellow Rose Properties being significant. The Fairway Properties acquisition, which was not significant, was combined with the Yellow Rose Properties to disclose the effect of both acquisitions. The unaudited pro forma financial information was computed as if these two acquisitions had been completed on January 1, 2010. The historical financial information is derived from the unaudited historical consolidated financial statements of W&T and the unaudited historical statements of the sellers.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The pro forma adjustments were based on estimates by management and information believed to be directly related to the purchase of the Yellow Rose Properties and the Fairway Properties. The pro forma financial information is not necessarily indicative of the results of operations had the acquisitions occurred on January 1, 2010. If the transactions had been in effect for the periods indicated, the results may have been substantially different. For example, we may have operated the assets differently than the sellers, realized sales prices may have been different and costs of operating the properties may have been different. The following table presents a summary of our pro forma condensed combined statements of income for the three and nine months ended September 30, 2011 (in thousands except earnings per share):

	Three Months Ended, September 30, 2011	Nine Months Ended, September 30, 2011
Revenue	$ 250,257	$ 761,531
Net income	56,207	139,134
Basic and diluted earnings per common share	0.74	1.84

For this pro forma financial information, we assumed the transactions were financed with borrowings from the revolving bank credit facility because the cash and cash equivalents balances for the assumed acquisition date was less than the cash and cash equivalents on hand used on the actual closing dates of the two acquisitions. Also, we assumed that the revolving bank credit facility capacity would have been increased due to the increase in reserves.

The following adjustments were made in the preparation of the condensed combined statement of income:

(a) Revenues and direct operating expenses for the Yellow Rose Properties and the Fairway Properties were derived from the historical records of the sellers up to the respective closing dates.

(b) DD&A was estimated using the full-cost method and determined as the incremental DD&A expense due to adding the Yellow Rose Properties and Fairway Properties costs, reserves and production into the computation. The purchase price allocation included $82.6 million allocated to the pool of unevaluated properties for oil and gas interests. Accordingly, no DD&A expense was estimated for the unevaluated properties.

(c) Asset retirement obligations and related accretion were estimated by W&T management.

(d) Incremental transaction expenses related to the acquisitions for the three and nine months ended September 30, 2011 were $0.8 million and $1.4 million, respectively, and were assumed to be funded from cash on hand.

(e) Interest expense was computed using interest rates that were in effect during the applicable time period and we assumed that six-month LIBOR borrowings were made as allowed under the revolving bank credit facility. The assumed interest rates ranged from 3.1% to 3.5%. A reduction in the revolving bank credit facility commitment fee related to the assumed borrowings was netted against the computed incremental interest expense.

(f) Incremental capitalized interest was computed for the addition to the pool of unevaluated properties and the capitalization interest rate was adjusted for the assumed borrowings.

(g) Income tax was computed using the 35% federal statutory rate.

2011 Divestitures. There were no material divestitures completed during the nine months ended September 30, 2011.

3. Hurricane Remediation and Insurance Claims

During the third quarter of 2008, Hurricane Ike caused substantial property damage and we continue to incur costs and submit claims to our insurance underwriters related to repairing such damage. Our insurance policies in effect on the occurrence date of Hurricane Ike had a retention requirement of $10.0 million per occurrence, which has been satisfied, and coverage policy limits of $150.0 million for property damage due to named windstorms (excluding damage at certain facilities) and $250.0 million for, among other things, removal of wreckage if mandated by any governmental authority.

We recognize insurance receivables with respect to capital, repair and plugging and abandonment costs as a result of hurricane damage when we deem those to be probable of collection, which arises when our insurance underwriters adjuster

W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

reviews and approves such costs for payment by the underwriters. Claims that have been processed in this manner have customarily been paid on a timely basis. See Note 4 for additional information about the impact of hurricane related items on our ARO.

From the third quarter of 2008 through September 30, 2012, we have received $140.0 million from our insurance underwriters related to Hurricane Ike. To the extent additional remediation costs or plug and abandonment costs are incurred that are not covered by insurance, we expect that our available cash and cash equivalents, cash flow from operations and the availability under our revolving bank credit facility will be sufficient to meet necessary expenditures that may exceed our insurance coverage for damages incurred as a result of Hurricane Ike.

4. Asset Retirement Obligations

Our ARO represent the estimated present value of the amount we will incur to plug, abandon and remediate our producing properties at the end of their productive lives in accordance with applicable laws. A summary of the changes to our ARO since December 31, 2011 is as follows (in thousands):

Balance, December 31, 2011	$ 393,880
Liabilities settled	(63,150)
Accretion of discount	15,043
Disposition of properties	(3,993)
Liabilities incurred	486
Revisions of estimated liabilities due to Hurricane Ike (1)	(29,571)
Revisions of estimated liabilities all other (2)	21,554
Balance, September 30, 2012	334,249
Less current portion	83,545
Long-term	$ 250,704

(1) During the nine months ended September 30, 2012, our recommended remediation plan for one of the hurricane damaged platforms and its associated wells was approved by all required parties. The approved plan, which included remediating the damaged platform as a reef in place, was responsible for most of the reduction of the estimated costs.

(2) The majority of the increase is attributable to properties that we do not operate.

5. Derivative Financial Instruments

Our market risk exposure relates primarily to commodity prices and interest rates. From time to time, we use various derivative instruments to manage our exposure to commodity price risk from sales of oil and natural gas and interest rate risk from floating interest rates on our revolving bank credit facility. We do not enter into derivative instruments for speculative trading purposes. Our derivative instruments currently consist of crude oil swap and option contracts. All of the derivative counterparties are also lenders or affiliates of lenders participating in our revolving bank credit facility. We are exposed to credit loss in the event of nonperformance by the derivative counterparties; however, we do not currently anticipate that any of our derivative counterparties will be unable to fulfill their contractual obligations. Additional collateral is not required by us due to the derivative counterparties collateral rights as lenders and we do not require collateral from our derivative counterparties. Our derivative agreements allow for netting of derivative gains and losses upon settlement. If an event of default were to occur causing an acceleration of payment under our revolving bank credit facility, that event may also trigger an acceleration of settlement of our derivative instruments.

We account for derivative contracts in accordance with GAAP, which requires each derivative to be recorded on the balance sheet as an asset or a liability at its fair value. We have elected not to designate our commodity derivatives as hedging instruments, therefore, all changes in the fair value of derivative contracts are recognized currently in earnings. For additional information about fair value measurements, refer to Note 7.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Commodity Derivatives. We have entered into commodity option contracts to manage a portion of our exposure to commodity price risk from sales of oil through December 2014. While these contracts are intended to reduce the effects of price volatility, they may also limit future income from favorable price movements. During the nine months ended September 30, 2012 and 2011, our derivative contracts consisted entirely of crude oil contracts. The zero cost collars are priced off the West Texas Intermediate (WTI) crude oil price quoted on the New York Mercantile Exchange, known as NYMEX, and the swaps are priced off the Brent crude oil price quoted on the IntercontinentalExchange, known as ICE. Although our Gulf of Mexico crude oil is based off the WTI crude oil price plus a premium, the realized prices received for the types of crude oil have been closer to the Brent crude oil price because of competition with foreign supplied crude oil, which is based off the Brent crude oil price. Therefore, we entered into swap oil contracts priced off the Brent crude oil price to mitigate a portion of the price risk associated with our Gulf of Mexico crude oil production.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of September 30, 2012, our open commodity derivative contracts were as follows:

Zero Cost Collars Oil (NYMEX)

Termination Period		Notional Quantity (Bbls)	Weighted Average Contract Price Floor	Weighted Average Contract Price Ceiling	Fair Value Liability (in thousands)
2012:	4th quarter	251,000	$ 75.00	$ 98.99	$ 345

Swaps Oil (ICE)

Termination Period		Notional Quantity (Bbls)	Weighted Average Contract Price	Fair Value Liability (in thousands)
2012:	4th quarter	257,600	$ 107.28	$ 977
2013:	1st quarter	351,000	101.97	2,501
	2nd quarter	336,700	101.97	1,862
	3rd quarter	312,800	101.98	1,265
	4th quarter	294,400	101.98	805
2014:	1st quarter	180,000	97.38	1,073
	2nd quarter	172,900	97.38	807
	3rd quarter	165,600	97.38	573
	4th quarter	156,400	97.37	365
		2,227,400	$ 101.19	$ 10,228

The following balance sheet line items included amounts related to the estimated fair value of our open derivative contracts as indicated in the following table (in thousands):

	September 30, 2012	December 31, 2011
Prepaid and other assets	$	$ 2,341
Other assets		1,746
Accrued liabilities	6,950	7,199
Other liabilities	3,623	

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Changes in the fair value of our derivative contracts are recognized currently in earnings and were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Derivative (gain) loss:				
Realized	$ 875	$ 917	$ 6,960	$ 9,239
Unrealized	23,784	(18,240)	7,461	(20,054)
Total	$ 24,659	$ (17,323)	$ 14,421	$ (10,815)

6. Long-Term Debt

At September 30, 2012 and December 31, 2011, the balance outstanding of our senior notes, which bear an annual interest rate of 8.50% and mature on June 15, 2019 (the 8.50% Senior Notes), was $600.0 million and was classified as long-term at their carrying value. Interest on the 8.50% Senior Notes is payable semi-annually in arrears on June 15 and December 15. The estimated annual effective interest rate on the 8.50% Senior Notes is 8.6%. We are subject to various financial and other covenants under the indenture governing the 8.50% Senior Notes and we were in compliance with those covenants as of September 30, 2012.

See Note 13 for information on additional senior notes issued subsequent to September 30, 2012.

The Fourth Amended and Restated Credit Agreement, as amended, (the Credit Agreement) governs our revolving bank credit facility and terminates on May 5, 2015. Borrowings under our revolving bank credit facility are secured by our oil and natural gas properties. Availability under such facility is subject to a semi-annual redetermination of our borrowing base that occurs in the spring and fall of each year and is calculated by our lenders based on their evaluation of our proved reserves and their own internal criteria.

On May 7, 2012, we executed the First Amendment to the Fourth Amended and Restated Credit Agreement (the First Amendment), which, among other things, increased the number of participating lenders, increased the borrowing base from $575.0 million to $650.0 million and added a provision permitting the Company to maintain security interests in favor of any hedging counterparties that cease to be lenders under the Company s revolving bank credit facility.

See Note 13 for information on an additional amendment to the Credit Agreement executed subsequent to September 30, 2012.

At September 30, 2012 and December 31, 2011, we had $119.0 million and $117.0 million, respectively, of loans outstanding and $0.6 million and $0.4 million, respectively, of letters of credit outstanding under the revolving bank credit facility. The outstanding balance under the revolving bank credit facility was classified as long-term at the carrying value. The estimated annual effective interest rate was 4.8% for borrowings under the revolving bank credit facility for the nine months ended September 30, 2012. The estimated annual effective interest rate includes amortization of debt issuance costs and excludes commitment fees and other costs. As of September 30, 2012, our borrowing base was $650.0 million and our borrowing capacity availability was $530.4 million.

Under the Credit Agreement, we are subject to two financial covenants calculated as of the last day of each fiscal quarter, comprised of a minimum current ratio and a maximum leverage ratio, each as defined in the Credit Agreement. We were in compliance with all applicable covenants of the Credit Agreement as of September 30, 2012.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For information about fair value measurements for our 8.50% Senior Notes and revolving bank credit facility, refer to Note 7.

7. Fair Value Measurements

We measure the fair value of our derivative financial instruments by applying the income approach, using models with inputs that are classified within Level 2 of the valuation hierarchy. The inputs used for the fair value measurement of our derivative financial instruments are the exercise price, the expiration date, the settlement date, notional quantities, the implied volatility, the discount curve with spreads and published commodity futures prices. The fair value of our 8.50% Senior Notes is based on quoted prices and the market is not an active market; therefore, the fair value is classified within Level 2. The carrying amount of debt under our revolving bank credit facility approximates fair value because the interest rates are variable and reflective of market rates.

The following table presents the fair value of our derivative financial instruments, 8.50% Senior Notes and revolving bank credit facility for the periods indicated (in thousands).

		September 30, 2012		December 31, 2011	
	Hierarchy	Assets	Liabilities	Assets	Liabilities
Commodity derivatives	Level 2	$	$ 10,573	$ 4,087	$ 7,199
8.50% Senior Notes	Level 2		648,000		612,000
Revolving bank credit facility	Level 2		119,000		117,000

As described in Note 5, our derivative financial instruments are reported in the balance sheet at fair value and changes in fair value are recognized currently in earnings. The 8.50% Senior Notes and revolving bank credit facility are reported in the balance sheet at their carrying value as described in Note 6.

8. Share-Based Compensation and Cash-Based Incentive Compensation

In 2010, the W&T Offshore, Inc. Amended and Restated Incentive Compensation Plan (the Plan) was approved by our shareholders. As allowed by the Plan, in 2012 and in prior years, the Company granted restricted stock units (RSUs) to certain of its employees and in January 2011, the Company granted restricted stock to one of its employees. RSUs are a long-term compensation component of the Plan, which are granted to only certain employees, and are subject to adjustments at the end of the applicable performance period based on the achievement of certain predetermined criteria. In 2012 and in prior years, restricted stock was granted to the Company s non-employee directors under the Director Compensation Plan. The restricted stock and RSUs vest at the end of a specified service period. In addition to share-based compensation, the Company may grant to its employees cash-based incentive awards, which are a short-term component of the Plan, and are based on the Company and the employee achieving certain predetermined performance criteria.

We recognize compensation cost for share-based payments to employees and non-employee directors over the period during which the recipient is required to provide service in exchange for the award, based on the fair value of the equity instrument on the date of grant. We are also required to estimate forfeitures, resulting in the recognition of compensation cost only for those awards that are expected to actually vest.

At September 30, 2012, there were 2,269,745 shares of common stock available for issuance in satisfaction of awards under the Plan and 546,829 shares of common stock available for issuance in satisfaction of awards under the Director Compensation Plan. The shares available for both plans are reduced when restricted stock is granted. RSUs will reduce the shares available in the Plan only if RSUs are settled in shares of common stock. The Company has the option to settle RSUs in stock or cash at vesting.

Restricted Stock. As of September 30, 2012, the Company had unvested restricted shares outstanding issued to the non-employee directors and one employee. Restricted shares are subject to forfeiture until vested and cannot be sold, transferred or disposed of during the restricted period.

The holders of restricted shares generally have the same rights as a shareholder of the Company with respect to such shares, including the right to vote and receive dividends or other distributions paid with respect to the shares. The fair value of restricted stock was estimated by using the Company s closing price on the grant date.

W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

A summary of activity related to restricted stock is as follows:

	Restricted Stock	
	Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding restricted shares, December 31, 2011	51,870	$ 15.81
Granted	21,954	19.13
Vested	(27,475)	13.59
Forfeited		
Outstanding restricted shares, September 30, 2012 (1)	46,349	$ 18.70

(1) Subject to the satisfaction of service conditions, 2,662 shares, 24,019 shares, 12,354 shares and 7,314 shares will vest in 2012, 2013, 2014 and 2015, respectively.

The grant date fair value of restricted shares granted during the nine months ended September 30, 2012 and 2011 was $0.4 million and $0.5 million, respectively. The fair value of restricted shares that vested during the nine months ended September 30, 2012 and 2011 was $0.5 million and $0.6 million, respectively.

Restricted Stock Units. During 2012, the Company awarded to certain employees RSUs that were 100% contingent upon meeting specified performance requirements, with 70% of the award conditioned on achieving earnings per share targets for 2012, 10% of the award conditioned on achieving total shareholder return (TSR) targets for 2012, 10% of the award conditioned on achieving TSR targets for 2013 and 10% of the award conditioned on achieving TSR targets for the period January 1, 2014 to October 31, 2014 (collectively, the 2012 RSUs). TSR is determined based upon the change in the entity s stock price and dividends for the performance period. The TSR targets are the ranking of the Company s TSR compared to the TSR of 19 peer companies. The 2012 RSUs related to the earnings per share targets have an issuance scale from 0% to 100%. The 2012 RSUs related to TSR targets have an issuance scale from 0% to 150%. Subject to achieving the predetermined performance criteria and the service condition, vesting for the 2012 RSUs occurs on December 15, 2014.

The fair value at the date of grant for the 2012 RSUs was determined separately for the component related to the earnings per share targets and the component related to TSR targets. The fair value of the component related to earnings per share targets was determined using the Company s closing price on the grant date and a forecast of earnings per share for 2012 to estimate the number of shares eligible for vesting. The fair value for the component related to TSR targets was determined by using a Monte Carlo simulation probabilistic model. The inputs used in the probabilistic model for the Company and the peer companies were: average closing stock prices during January 2012; risk-free interest rates using the London Interbank Offered Rate (LIBOR) ranging from 0.15% to 0.72% over the service period; expected volatilities ranging from 33% to 74%; expected dividend yields ranging from 0.0% to 2.5%; and correlation factors ranging from (67%) to 94%. The expected volatilities, expected dividends and correlation factors were developed using historical data.

During 2010 and 2011, the Company awarded to certain employees RSUs that were 100% contingent upon meeting specified performance requirements, which were achieved for both awards. Subject to satisfaction of the service condition, vesting will occur on December 15, 2012 and December 15, 2013, respectively. The fair value of the 2010 and 2011 RSUs was estimated by using the Company s closing price on the grant date.

All RSUs awarded are subject to forfeiture until vested and cannot be sold, transferred or otherwise disposed of during the restricted period. Dividend equivalents are earned at the same rate as dividends paid on our common stock after achieving the specified performance requirement for that component of the RSUs.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

A summary of activity related to RSUs is as follows:

	Restricted Stock Units	
	Units	Weighted Average Grant Date Fair Value Per Unit
Outstanding RSUs, December 31, 2011	1,732,703	$ 14.67
Granted (1)	764,478	18.64
Vested		
Forfeited	(53,199)	21.59
Outstanding RSUs, September 30, 2012 (2)	2,443,982	$ 15.76

(1) Grants for the 2012 RSUs are subject to adjustment once the specified performance requirements can be measured. As of September 30, 2012, none of the performance targets for the 2012 RSUs are measurable as the earnings per share and the TSR for 2012 components are measured as of December 31, 2012. Subject to the performance against specified targets, the range of 2012 RSUs that may ultimately be issued is zero to 864,867 RSUs as of September 30, 2012.

(2) Subject to the satisfaction of service conditions, 1,198,208 and 493,716 RSUs will vest in 2012 and 2013, respectively. Subject to the satisfaction of performance and service conditions, 752,058 RSUs will vest in 2014, which may be increased up to 864,867 RSUs depending on the specified performance results.

During the nine months ended September 30, 2011, there were 534,375 grants and no RSUs vested.

Share-Based Compensation. A summary of incentive compensation expense under share-based payment arrangements and the related tax benefit is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Share-based compensation expense from:				
Restricted stock	$ 110	$ 593	$ 324	$ 1,784
Restricted stock units	3,209	2,182	8,813	4,653
Total	$ 3,319	$ 2,775	$ 9,137	$ 6,437
Share-based compensation tax benefit:				
Tax benefit computed at the statutory rate	$ 1,162	$ 971	$ 3,198	$ 2,253

As of September 30, 2012, unrecognized share-based compensation expense related to our outstanding restricted shares and RSUs was $0.7 million and $14.0 million, respectively. Unrecognized compensation expense will be recognized through April 2015 for restricted shares and through November 2014 for RSUs.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Cash-based Incentive Compensation. As defined by the Plan, annual incentive awards may be granted to eligible employees payable in cash. These awards are performance-based awards consisting of one or more business criteria or individual performance criteria and a targeted level or levels of performance with respect to each of such criteria. Generally, the performance period is the calendar year and determination and payment is made in cash in the first quarter of the following year.

Share-Based Compensation and Cash-Based Incentive Compensation Expense. A summary of incentive compensation expense is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Share-based compensation expense included in:				
Lease operating expense	$	$ 116	$	$ 349
General and administrative	3,319	2,659	9,137	6,088
Total charged to operating income	3,319	2,775	9,137	6,437
Cash-based incentive compensation included in:				
Lease operating expense	947	697	2,846	2,836
General and administrative	3,048	3,024	4,926	9,175
Total charged to operating income	3,995	3,721	7,772	12,011
Total incentive compensation charged to operating income	$ 7,314	$ 6,496	$ 16,909	$ 18,448

9. Income Taxes

During the three and nine months ended September 30, 2012, we recorded an income tax benefit of $2.2 million and income tax expense of $34.0 million, respectively. Our effective tax rate for the three and nine months ended September 30, 2012 was 59.7% and 38.0%, respectively. The tax benefit in the third quarter exceeded the amount computed at the statutory rate of 35.0% as a result of a decrease in our full year forecasted effective tax rate. The effective tax rate for the third quarter of 2012 is not representative of the effective tax rate going forward. The rate for the nine month period differed from the federal statutory rate primarily as a result of the recapture of deductions for qualified domestic production activities under Section 199 of the IRC as a function of loss carrybacks to prior years. The effective tax rate for the nine months ended September 30, 2012 agrees to our full year forecasted effective tax rate of 38.0%. During the three and nine months ended September 30, 2011, we recorded income tax expense of $28.8 million and $68.8 million, respectively. Our effective tax rate for the three and nine months ended September 30, 2011 was 35.3% and 35.2%, respectively, which approximated the federal statutory rate.

As of September 30, 2012 and December 31, 2011, we did not have any unrecognized tax benefit recorded. As of September 30, 2012 and December 31, 2011, we had a valuation allowance related to state net operating losses. The realization of these assets depends on recognition of sufficient future taxable income in specific tax jurisdictions in which those temporary differences or net operating losses are deductible. The tax years from 2008 through 2011 remain open to examination by the tax jurisdictions to which we are subject.

W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

10. Earnings Per Share

The following table presents the calculation of basic and diluted earnings per common share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	$ (1,471)	$ 52,928	$ 55,315	$ 126,752
Less portion distributed and allocated to nonvested shares	90	1,118	1,128	2,680
Net income (loss) allocated to common shares	$ (1,561)	$ 51,810	$ 54,187	$ 124,072
Weighted average common shares outstanding	74,327	74,028	74,315	74,017
Basic and diluted earnings (loss) per common share	$ (0.02)	$ 0.70	$ 0.73	$ 1.68
Shares excluded due to being anti-dilutive (weighted-average)	1,866	1,995	1,823	1,798

11. Dividends

During the nine months ended September 30, 2012 and 2011, we paid regular cash dividends of $0.08 and $0.04 per common share per quarter, respectively. On October 30, 2012, our board of directors declared a cash dividend of $0.08 per common share and a special dividend of $0.47 per common share, payable on December 3, 2012 to shareholders of record on November 16, 2012.

12. Contingencies

Federal Grand Jury Investigation. The United States Attorney s Office for the Eastern District of Louisiana, along with the Criminal Investigation Division of the U.S. Environmental Protection Agency (the EPA), has been conducting a federal grand jury investigation of environmental compliance matters relating to surface discharges and reporting on four of our offshore platforms in the Gulf of Mexico. We are fully cooperating with the investigation which began in late 2010 and is currently ongoing. The United States Attorney s Office has informed us that it is continuing its investigation with the intent to seek a criminal disposition. We are in settlement discussions with the government. The outcome of this investigation could have a material adverse effect upon us. We are not able at this time to estimate our potential exposure, if any, related to this matter.

Cameron Parish Louisiana Claim. Certain Cameron Parish land owners filed suits in the 38th Judicial District Court, Cameron Parish, Louisiana against the Company and Tracy W. Krohn as well as several other defendants unrelated to us. In their lawsuits, plaintiffs alleged that property they own has been contaminated or otherwise damaged by the defendants oil and gas exploration and production activities and they are seeking compensatory and punitive damages. During the third quarter of 2012, we settled the majority of the claims related to this matter and paid $9.0 million. We assessed the remainder of the claims to be probable and have estimated additional payments to be $1.8 million, which were included in our contingent liabilities accrual as of September 30, 2012.

Qui Tam Litigation. The Company was recently served with a complaint in a *qui tam* action filed under the federal False Claims Act by an employee of a Company contractor. The lawsuit, *United States ex rel. Comeaux v. W&T Offshore, Inc., et al.; CA No. 10-494*, was filed in the United States District Court for the Eastern District of Louisiana, against the Company and three other working interest owners related to claims associated with three of the Company s operated production platforms. A *qui tam* action, also known as a whistleblower action, is a lawsuit brought by a private citizen seeking civil penalties or damages against a person or company on behalf of the government for alleged violations of law. If

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(Unaudited)

the claims are successful, the person filing the suit may recover a percentage of the damages or penalty from the lawsuit as a reward for exposing a wrongdoing and recovering funds on behalf of the government. The complaint was originally filed in 2010 but kept under confidential seal in order for the federal government to decide if it wished to intervene and take over the prosecution of the *qui tam action*. The government declined to intervene in this suit and the complaint was unsealed and made public in June 2012, thereby giving the plaintiff the opportunity to pursue the claims on behalf of the government. The complaint was served on the Company on September 21, 2012.

The complaint alleges that environmental violations at three of the Company s operated production platforms in the Gulf of Mexico violate the federal offshore lease provisions so that the Company, among other things, wrongfully retained benefits under the applicable leases. The alleged environmental violations include allegations of discharges of relatively small amounts of oil into the Gulf of Mexico, the failure to report and record such discharges, and falsification of certain produced water samples and related reports required under federal law. The events are alleged to have occurred in 2009. These are largely the same allegations involved in the ongoing federal grand jury investigation of the Company, which the Company has previously disclosed and in which the Company is fully cooperating.

The Company intends to vigorously defend the claims made in this lawsuit. Since it has only recently been served, the Company has not made any determination of the likelihood of an adverse outcome or the amount or range of any potential loss in the event of an adverse outcome.

Contingent Liability Recorded. During the three and nine months ended September 30, 2012, we recognized expenses related to accrued and settled claims and complaints of $0.4 million and $8.8 million, respectively, and during the three and nine months ended September 30, 2011, we recognized expenses of $0.4 million and $0.2 million, respectively. These expenses are reported in *General and administrative expenses* on the statement of income and reflect the items noted above and other various claims and complaints. As of September 30, 2012 and December 31, 2011, we have recorded a liability of $1.8 million and $2.0 million, respectively, which is included in *Accrued liabilities* on the balance sheet, for the loss contingencies matters that include the events described above and other minor environmental and litigation matters which we are addressing in the normal course of business.

Royalties. In 2009, the Company recognized $5.3 million in allowable reductions of cash payments for royalties owed to the Office of Natural Resources Revenue (the ONRR) for transportation of their deepwater production through our subsea pipeline systems. In 2010, the ONRR audited the calculations and support related to this usage fee, and in the third quarter of 2010, we were notified that the ONRR had disallowed approximately $4.7 million of the reductions taken. We recorded a reduction to other revenue of $4.7 million in the third quarter of 2010 to reflect this disallowance; however, we disagree with the position taken by the ONRR and we are pursuing our claim to resolve the matter.

Other Claims. We are a party to various pending or threatened claims and complaints seeking damages or other remedies concerning our commercial operations and other matters in the ordinary course of our business. In addition, claims or contingencies may arise related to matters occurring prior to our acquisition of properties or related to matters occurring subsequent to our sale of properties. In certain cases, we have indemnified the sellers of properties we have acquired, and in other cases, we have indemnified the buyers of properties we have sold. We are also subject to federal and state administrative proceedings conducted in the ordinary course of business. Although we can give no assurance about the outcome of pending legal and federal or state administrative proceedings and the effect such an outcome may have on us, management believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

13. Subsequent Events

Acquisitions

On October 5, 2012, we completed the acquisition of certain oil and gas leasehold interests (the Newfield Properties) from Newfield Exploration Company and its subsidiary, Newfield Exploration Gulf Coast LLC (together, Newfield). The stated purchase price was $228.0 million, subject to certain adjustments, including adjustments from an effective date of

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(Unaudited)

July 1, 2012 until the closing date, October 5, 2012, and the assumption of future ARO. The properties acquired consists of leases covering 78 federal offshore blocks on approximately 432,700 gross acres (416,000 gross acres excluding overriding royalty interests), comprised of 65 blocks in the deepwater, six of which are producing, ten blocks on the conventional shelf, four of which are producing, and an overriding royalty interest in three deepwater blocks, two of which are producing. The acquisition was funded from borrowings under our revolving bank credit facility and cash on hand.

The following table presents the preliminary purchase price allocation, including estimated adjustments, for the acquisition of the Newfield Properties (in thousands):

Oil and natural gas properties and equipment (1)	$ 238,004
Asset retirement obligations current	(7,250)
Asset retirement obligations non-current	(23,086)
Total cash paid	$ 207,668

(1) The allocation to unproved properties amounts is initially estimated at $13.1 million. Amounts recorded as unproved properties are excluded from the full cost pool and amortization base.

Expenses associated with acquisition activities and transition activities related to the acquisition of the Newfield Properties for the nine months ended September 30, 2012 were $0.1 million and are included in general and administrative expenses (G&A).

Pro Forma Financial Information

Pro forma financial information has been prepared because the Newfield Properties constitute a significant acquisition. The unaudited pro forma financial information was computed as if the acquisition had been completed on January 1, 2011. The historical financial information is derived from the unaudited historical consolidated financial statements of W&T and the unaudited historical financial statements of Newfield.

The pro forma adjustments were based on estimates by management and information believed to be directly related to the purchase of the Newfield Properties. The pro forma financial information is not necessarily indicative of the results of operations had the purchase occurred on January 1, 2011. If the transaction had been in effect for the periods indicated, the results may have been substantially different. For example, we may have operated the assets differently than Newfield, realized oil, NGLs and natural gas sales prices may have been different and costs of operating the properties may have been different. The following table presents a summary of our pro forma financial information (in thousands except earnings per share):

	(unaudited)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	$ 216,954	$ 294,370	$ 739,766	$ 877,944
Net income (loss)	(640)	62,404	59,879	165,363
Basic and diluted earnings (loss) per common share	(0.01)	0.82	0.79	2.18

The purchase price of the acquisitions may be subject to further adjustments. At this time, the revenues, operating expenses and ARO include estimates and are subject to change upon further analysis and review. For the pro forma financial information, we assumed the transaction was financed with borrowings from the additional senior notes issued shortly after the acquisition closed.

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(Unaudited)

The following adjustments were made in the preparation of the pro forma financial information:

(a) Revenues and direct operating expenses for the Newfield Properties were derived from the historical financial records of Newfield.

(b) Depreciation, depletion, amortization and accretion (DD&A) was estimated using the full-cost method and determined as the incremental DD&A expense due to adding the Newfield Properties costs, reserves and production into our currently existing full cost pool in order to compute such amounts. The purchase price allocation included $13.1 million that was allocated to the pool of unevaluated properties for oil and natural gas interests. Accordingly, no DD&A expense was estimated for the unevaluated properties.

(c) ARO and related accretion were estimated by W&T management.

(d) Incremental transaction expenses related to the acquisition completed during 2012 were $0.1 million and were assumed to be funded from cash on hand.

(e) Interest expense was computed using assumed borrowings of $207.7 million, which equates to the cash component of the transaction, and an interest rate of 7.7%, which equates to the effective yield on net proceeds for the additional senior notes issued shortly after the acquisition closed. See below for information on these additional senior notes.

(f) Incremental capitalized interest was computed for the addition to the pool of unevaluated properties and the capitalization interest rate was adjusted for the assumed borrowings.

(g) Income tax expense was computed using the 35% federal statutory rate.

(h) The 2011 periods do not include any pro forma adjustments related to the 2011 acquisitions as described in Note 2.

Credit Agreement Amendment

On October 12, 2012, we entered into the Second Amendment to the Credit Agreement (the Second Amendment) which, among other things, allows for the issuance of additional senior unsecured indebtedness. Following the amendment, we may issue additional senior unsecured indebtedness, however, the borrowing base under the Credit Agreement will be automatically and simultaneously reduced by $0.25 for every $1.00 increase in unsecured indebtedness incurred in excess of the $600.0 million aggregate principal amount of our existing notes until such time as the borrowing base has been redetermined or otherwise adjusted pursuant to the Credit Agreement. All other terms of the Credit Agreement remain substantially the same, including the termination date of May 5, 2015, interest rates spreads and covenants.

Additional 8.50% Senior Notes

On October 24, 2012, we completed an offering for an additional $300.0 million in aggregate principal amount of 8.50% Senior Notes (the New Notes), which have identical terms to the 8.50% Senior Notes issued in June 2011, except that the issuance and sale of the New Notes was not registered with the SEC. The New Notes were sold in a private offering that was exempt from the registration requirements of the Securities Act of 1933 and issued at a premium of 106% of par value. The net proceeds after fees and expenses were approximately $312.0 million. The funds were used to repay all of our outstanding indebtedness under our revolving bank credit facility, a portion of which was recently incurred to partially fund our acquisition of the Newfield Properties described above, and for general corporate purposes. The issuance of the New Notes resulted in a reduction of our borrowing base from $650.0 million to $575.0 million until such time as the fall redetermination occurs.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

14. Supplemental Guarantor Information

Our payment obligations under the 8.50% Senior Notes and the Credit Agreement (see Note 6) are fully and unconditionally guaranteed by certain of our wholly-owned subsidiaries, W&T Energy VI, LLC and W&T Energy VII, LLC, which does not have any active operations (together, the Guarantor Subsidiaries).

The following unaudited condensed consolidating financial information presents the financial condition, results of operations and cash flows of W&T Offshore, Inc. (when referred to on a stand-alone basis, the Parent Company) and the Guarantor Subsidiaries, together with consolidating adjustments necessary to present the Company s results on a consolidated basis.

Condensed Consolidating Balance Sheet as of September 30, 2012

	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated W&T Offshore, Inc.
		(In thousands)		
Assets				
Current assets:				
Cash and cash equivalents	$ 6,993	$	$	$ 6,993
Receivables:				
Oil and natural gas sales	53,969	14,261		68,230
Joint interest and other	21,105			21,105
Income taxes	124,012		(109,728)	14,284
Total receivables	199,086	14,261	(109,728)	103,619
Restricted cash and cash equivalents	24,026			24,026
Deposit for acquisition	22,800			22,800
Prepaid expenses and other assets	32,455			32,455
Total current assets	285,360	14,261	(109,728)	189,893
Property and equipment at cost:				
Oil and natural gas properties and equipment	5,917,591	312,035		6,229,626
Furniture, fixtures and other	20,912			20,912
Total property and equipment	5,938,503	312,035		6,250,538
Less accumulated depreciation, depletion and amortization	4,384,839	171,709		4,556,548
Net property and equipment	1,553,664	140,326		1,693,990
Restricted deposits for asset retirement obligations	28,441			28,441
Deferred income taxes		15,986	(15,986)	
Other assets	421,125	376,655	(783,452)	14,328
Total assets	$ 2,288,590	$ 547,228	$ (909,166)	$ 1,926,652
Liabilities and Shareholders Equity				

Current liabilities:				
Accounts payable	$ 103,370	$ 904	$	$ 104,274
Undistributed oil and natural gas proceeds	34,437	223		34,660
Asset retirement obligations	83,545			83,545
Accrued liabilities	32,331			32,331
Income taxes		110,078	(109,728)	350
Deferred income taxes current	2,945			2,945
Total current liabilities	256,628	111,205	(109,728)	258,105
Long-term debt	719,000			719,000
Asset retirement obligations, less current portion	221,478	29,226		250,704
Deferred income taxes	114,379		(15,986)	98,393
Other liabilities	386,125		(376,655)	9,470
Shareholders equity:				
Common stock	1			1
Additional paid-in capital	396,601	231,759	(231,759)	396,601
Retained earnings	218,545	175,038	(175,038)	218,545
Treasury stock, at cost	(24,167)			(24,167)
Total shareholders equity	590,980	406,797	(406,797)	590,980
Total liabilities and shareholders equity	$ 2,288,590	$ 547,228	$ (909,166)	$ 1,926,652

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Condensed Consolidating Balance Sheet as of December 31, 2011

	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated W&T Offshore, Inc.
		(In thousands)		
Assets				
Current assets:				
Cash and cash equivalents	$ 4,512	$	$	$ 4,512
Receivables:				
Oil and natural gas sales	78,131	20,419		98,550
Joint interest and other	25,804			25,804
Income taxes	74,183		(74,183)	
Total receivables	178,118	20,419	(74,183)	124,354
Deferred income taxes current	2,007			2,007
Prepaid expenses and other assets	30,315			30,315
Total current assets	214,952	20,419	(74,183)	161,188
Property and equipment at cost:				
Oil and natural gas properties and equipment	5,689,535	269,481		5,959,016
Furniture, fixtures and other	19,500			19,500
Total property and equipment	5,709,035	269,481		5,978,516
Less accumulated depreciation, depletion and amortization	4,208,825	111,585		4,320,410
Net property and equipment	1,500,210	157,896		1,658,106
Restricted deposits for asset retirement obligations	33,462			33,462
Deferred income taxes		17,637	(17,637)	
Other assets	372,572	275,181	(631,584)	16,169
Total assets	$ 2,121,196	$ 471,133	$ (723,404)	$ 1,868,925
Liabilities and Shareholders Equity				
Current liabilities:				
Accounts payable	$ 73,333	$ 2,538	$	$ 75,871
Undistributed oil and natural gas proceeds	33,391	341		33,732
Asset retirement obligations	138,185			138,185
Accrued liabilities	29,705			29,705
Income taxes		84,575	(74,183)	10,392
Total current liabilities	274,614	87,454	(74,183)	287,885
Long-term debt	717,000			717,000
Asset retirement obligations, less current portion	228,419	27,276		255,695
Deferred income taxes	76,518		(17,637)	58,881

Other liabilities	280,071		(275,181)	4,890
Shareholders equity:				
Common stock	1			1
Additional paid-in capital	386,920	231,759	(231,759)	386,920
Retained earnings	181,820	124,644	(124,644)	181,820
Treasury stock, at cost	(24,167)			(24,167)
Total shareholders equity	544,574	356,403	(356,403)	544,574
Total liabilities and shareholders equity	$ 2,121,196	$ 471,133	$ (723,404)	$ 1,868,925

W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Condensed Consolidating Statement of Income for the Three Months Ended September 30, 2012

	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated W&T Offshore, Inc.
		(In thousands)		
Revenues	$ 141,139	$ 44,807	$	$ 185,946
Operating costs and expenses:				
Lease operating expenses	47,353	6,058		53,411
Production taxes	1,353			1,353
Gathering and transportation	2,084	726		2,810
Depreciation, depletion, amortization and accretion	58,744	18,718		77,462
General and administrative expenses	18,691			18,691
Derivative loss	24,659			24,659
Total costs and expenses	152,884	25,502		178,386
Operating income (loss)	(11,745)	19,305		7,560
Earnings of affiliates	12,551		(12,551)	
Interest expense:				
Incurred	14,791			14,791
Capitalized	(3,383)			(3,383)
Other income	202			202
Income (loss) before income tax expense (benefit)	(10,400)	19,305	(12,551)	(3,646)
Income tax expense (benefit)	(8,929)	6,754		(2,175)
Net income (loss)	$ (1,471)	$ 12,551	$ (12,551)	$ (1,471)

Condensed Consolidating Statement of Income for the Nine Months Ended September 30, 2012

	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated W&T Offshore, Inc.
		(In thousands)		
Revenues	$ 473,297	$ 164,048	$	$ 637,345
Operating costs and expenses:				
Lease operating expenses	150,860	19,489		170,349
Production taxes	4,174			4,174

Gathering and transportation	8,788	2,352		11,140
Depreciation, depletion, amortization and accretion	189,827	62,067		251,894
General and administrative expenses	60,200	2,593		62,793
Derivative loss	14,421			14,421
Total costs and expenses	428,270	86,501		514,771
Operating income	45,027	77,547		122,574
Earnings of affiliates	50,395		(50,395)	
Interest expense:				
Incurred	43,409			43,409
Capitalized	(9,899)			(9,899)
Other income	210			210
Income before income tax expense	62,122	77,547	(50,395)	89,274
Income tax expense	6,807	27,152		33,959
Net income	$ 55,315	$ 50,395	$ (50,395)	$ 55,315

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Condensed Consolidating Statement of Income for the Three Months Ended September 30, 2011

	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated W&T Offshore, Inc.
		(In thousands)		
Revenues	$ 174,935	$ 70,436	$	$ 245,371
Operating costs and expenses:				
Lease operating expenses	49,854	9,045		58,899
Production taxes	1,050			1,050
Gathering and transportation	3,669	1,184		4,853
Depreciation, depletion, amortization and accretion	62,372	22,083		84,455
General and administrative expenses	18,104			18,104
Derivative gain	(17,323)			(17,323)
Total costs and expenses	117,726	32,312		150,038
Operating income	57,209	38,124		95,333
Earnings of affiliates	24,780		(24,780)	
Interest expense:				
Incurred	14,721			14,721
Capitalized	(3,163)			(3,163)
Loss on extinguishment of debt	2,031			2,031
Other income	6			6
Income before income tax expense	68,406	38,124	(24,780)	81,750
Income tax expense	15,478	13,344		28,822
Net income	$ 52,928	$ 24,780	$ (24,780)	$ 52,928

Condensed Consolidating Statement of Income for the Nine Months Ended September 30, 2011

	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated W&T Offshore, Inc.
		(In thousands)		
Revenues	$ 507,689	$ 201,459	$	$ 709,148
Operating costs and expenses:				
Lease operating expenses	130,001	29,900		159,901

Production taxes	2,183		2,183
Gathering and transportation	9,990	3,213	13,203
Depreciation, depletion, amortization and accretion	176,999	64,918	241,917
General and administrative expenses	51,653	2,582	