W&T OFFSHORE INC
Form 10-Q
November 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

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 (State of incorporation)	72-1121985 (IRS Employer Identification Number)
Nine Greenway Plaza, Suite 300	
Houston, Texas (Address of principal executive offices)	77046-0908 (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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

As of October 31, 2018, there were 139,153,798 shares outstanding of the registrant's common stock, par value $0.00001.

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

(In thousands, except share data)

Assets	September 30, 2018 (Unaudited)	December 31, 2017
Current assets:		
Cash and cash equivalents	$339,063	$99,058
Receivables:		
Oil and natural gas sales	49,482	45,443
Joint interest	16,493	19,754
Income taxes	65,240	13,006
Total receivables	131,215	78,203
Prepaid expenses and other assets (Note 1)	19,699	13,419
Total current assets	489,977	190,680
Oil and natural gas properties and other, net - at cost: (Note 1)	522,781	579,016
Restricted deposits for asset retirement obligations	20,577	25,394
Income taxes receivable	—	52,097
Other assets (Note 1)	69,014	60,393
Total assets	$1,102,349	$907,580
Liabilities and Shareholders’ Deficit		
Current liabilities:		
Accounts payable	$95,502	$79,667
Undistributed oil and natural gas proceeds	34,225	20,129
Advances from joint interest partners	31,012	3,998
Asset retirement obligations	30,207	23,613
Current maturities of long-term debt: (Note 2)		
Principal	189,829	—
Carrying value adjustments	34,985	22,925
Current maturities of long-term debt - carrying value	224,814	22,925
Accrued liabilities (Note 1)	31,058	17,930
Total current liabilities	446,818	168,262
Long-term debt: (Note 2)		
Principal	713,365	889,790
Carrying value adjustments	45,758	79,337
Long term debt, less current portion - carrying value	759,123	969,127
Asset retirement obligations, less current portion	283,009	276,833
Other liabilities (Note 1)	73,175	66,866
Commitments and contingencies (Note 11)	—	—

Shareholders' deficit:		
Preferred stock, $0.00001 par value; 20,000,000 shares authorized; 0 issued at September 30, 2018 and December 31, 2017	—	—
Common stock, $0.00001 par value; 200,000,000 shares authorized; 142,022,971 issued and 139,153,798 outstanding at September 30, 2018 and 141,960,462 issued and 139,091,289 outstanding December 31, 2017	1	1
Additional paid-in capital	549,569	545,820
Retained earnings (deficit)	(985,179)	(1,095,162)
Treasury stock, at cost; 2,869,173 shares for both dates presented	(24,167)	(24,167)
Total shareholders' deficit	(459,776)	(573,508)
Total liabilities and shareholders' deficit	$1,102,349	$907,580

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(In thousands except per share data) (Unaudited)			
Revenues:				
Oil	$119,482	$78,055	$333,406	$248,648
NGLs	10,087	6,605	28,481	22,401
Natural gas	22,641	24,113	71,485	83,129
Other	1,249	1,508	3,912	3,819
Total revenues	153,459	110,281	437,284	357,997
Operating costs and expenses:				
Lease operating expenses	37,430	35,134	109,855	106,817
Production taxes	432	340	1,326	1,304
Gathering and transportation	5,779	4,108	15,764	15,635
Depreciation, depletion, amortization and accretion	36,969	36,489	114,807	116,843
General and administrative expenses	15,990	15,631	45,248	45,379
Derivative (gain) loss	(288)	2,879	5,931	(4,765)
Total costs and expenses	96,312	94,581	292,931	281,213
Operating income	57,147	15,700	144,353	76,784
Interest expense	11,630	11,554	35,100	34,284
Gain on exchange of debt	—	—	—	7,811
Other (income) expense, net	(885)	(41)	(1,093)	5,073
Income before income tax expense (benefit)	46,402	4,187	110,346	45,238
Income tax expense (benefit)	142	5,484	363	(11,079)
Net income (loss)	$46,260	$(1,297)	$109,983	$56,317
Basic and diluted earnings (loss) per common share	$0.32	$(0.01)	$0.76	$0.39

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT

	Common Stock Outstanding Shares	Common Stock Value	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Value	Total Shareholders' Deficit
	(In thousands) (Unaudited)						
Balances at December 31, 2017	139,091	$ 1	$ 545,820	$ (1,095,162)	2,869	$ (24,167)	$ (573,508)
Share-based compensation	—	—	3,808	—	—	—	3,808
Stock Issued	63	—	—	—	—	—	—
RSUs surrendered for payroll taxes	—	—	(59)	—	—	—	(59)
Net income	—	—	—	109,983	—	—	109,983
Balances at September 30, 2018	139,154	$ 1	$ 549,569	$ (985,179)	2,869	$ (24,167)	$ (459,776)

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2018	2017
	(In thousands) (Unaudited)	
Operating activities:		
Net income	$109,983	$56,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	114,807	116,843
Gain on exchange of debt	—	(7,811)
Amortization of debt items and other items	1,796	1,271
Share-based compensation	3,808	5,449
Derivative (gain) loss	5,931	(4,765)
Cash receipts (payments) on derivative settlements, net	(3,091)	3,924
Deferred income taxes	363	321
Changes in operating assets and liabilities:		
Oil and natural gas receivables	(4,039)	3,906
Joint interest receivables	3,261	8
Insurance reimbursements	—	31,740
Income taxes	(139)	320
Prepaid expenses and other assets	(8,467)	2,194
Escrow deposit - Apache lawsuit	—	(49,500)
Asset retirement obligation settlements	(22,764)	(56,226)
Cash advances from JV partners	27,014	(786)
Accounts payable, accrued liabilities and other	66,389	27,115
Net cash provided by operating activities	294,852	130,320
Investing activities:		
Investment in oil and natural gas properties and equipment	(59,161)	(79,088)
Changes in operating assets and liabilities associated with investing activities	(20,261)	5,679
Acquisition of property interest	(16,782)	—
Proceeds from sale of assets	50,474	—
Purchases of furniture, fixtures and other	—	(905)
Net cash used in investing activities	(45,730)	(74,314)
Financing activities:		
Payment of interest on 1.5 Lien Term Loan	(6,171)	(6,170)
Payment of interest on 2nd Lien PIK Toggle Notes	(2,920)	(7,335)
Payment of interest on 3rd Lien PIK Toggle Notes	—	(6,201)
Other	(26)	(372)
Net cash used in financing activities	(9,117)	(20,078)
Increase in cash and cash equivalents	240,005	35,928
Cash and cash equivalents, beginning of period	99,058	70,236

Cash and cash equivalents, end of period	$339,063	$106,164

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Operations. W&T Offshore, Inc. (with subsidiaries referred to herein as “W&T,” “we,” “us,” “our,” or the “Company”) is an independent oil and natural gas producer with substantially all of its operations offshore in the Gulf of Mexico. The Company is active in the exploration, development and acquisition of oil and natural gas properties. Our interests in fields, leases, structures and equipment are primarily owned by W&T Offshore, Inc. (on a stand-alone basis, the “Parent Company”) and its 100%-owned subsidiary, W & T Energy VI, LLC (“Energy VI”) and through our proportionately consolidated interest in Monza Energy LLC (“Monza”), as described in more detail in Note 4.

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 periods 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 for annual periods. 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, 2017.

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.

Recent Events. The price we receive for our crude oil, natural gas liquids (“NGLs”) and natural gas production directly affects our revenues, profitability, cash flows, liquidity, access to capital, proved reserves and future rate of growth. The average realized prices of crude oil and NGLs improved during the nine months ended September 30, 2018 compared to the average realized prices in the nine months ended September 30, 2017.

On October 18, 2018, we issued $625.0 million of 9.75% Senior Second Lien Notes due 2023 (the “Senior Second Lien Notes”) which substantially changed our capital structure. The Senior Second Lien Notes were issued at par and have a maturity date of November 1, 2023. Concurrently with the issuance of the Senior Second Lien Notes, we entered into the Sixth Amended and Restated Credit Agreement (as amended, the “New Revolving Credit Agreement”) which provides us with a revolving bank credit facility with an initial borrowing base of $250.0 million (increasing from $150.0 million under our prior facility). Letters of credit may be issued in amounts up to $30.0 million provided availability exists. The New Revolving Credit Agreement matures on October 18, 2022. The proceeds from the issuance of the Senior Second Lien Notes, cash on hand and borrowings under the New Revolving Credit Agreement were used to repurchase and retire, repay or irrevocably redeem all of our existing notes and term loans outstanding and fund debt issuance costs. We refer to these transactions and the related repurchases and retirements, repayments and redemptions of all of our outstanding notes and term loans collectively as the “2018 Refinancing Transaction.” See Note 12, Subsequent Events, for additional information.

We believe we will have adequate available liquidity to fund our operations through November 2019, the period of assessment to qualify as a going concern. However, we cannot predict the potential changes in commodity prices or future Bureau of Ocean Energy Management ("BOEM") bonding requirements, either of which could affect our operations, liquidity levels and compliance with debt covenants.

See our Annual Report on Form 10-K for the year ended December 31, 2017 concerning risks related to our business and events occurring during 2017 and other information and the Notes herein for additional information.

Accounting Standard Updates Effective January 1, 2018:

Accounting Standards Update No. 2017-01, Business Combinations (Topic 805) – Clarifying the Definition of a Business ("ASU 2017-01"), became effective for us as of January 1, 2018. The new guidance is intended to assist with the evaluation of whether a set of transferred assets and activities is a business. In application of the revised guidance under ASU 2017-01 for our acquisition of a non-operated interest in the Heidelberg field described in Note 5, we determined the transaction should be treated as an asset purchase rather than the purchase of a business.

Accounting Standard Update No. 2014-09, Revenue from Customers (Topic 606) ("ASU 2014-09"), became effective for us in the period ending March 31, 2018. We reviewed our contracts using the five-step revenue recognition model, which did not identify any changes required as to the amount or timing of revenue recognition. We adopted the new standard using the modified retrospective approach which did not result in any cumulative-effect adjustment on the date of adoption. The implementation of ASU 2014-09 resulted in a change in our reporting in the Condensed Consolidated Statement of Operations so that we now report revenue streams separately for crude oil, NGLs, natural gas and other revenues in compliance with the new standard.

Revenue Recognition. We recognize revenue from the sale of crude oil, NGLs, and natural gas when our performance obligations are satisfied. Our contracts with customers are primarily short-term (less than 12 months). Our responsibilities to deliver a unit of crude oil, NGL, and natural gas under these contracts represent separate, distinct performance obligations. These performance obligations are satisfied at the point in time control of each unit is transferred to the customer. Pricing is primarily determined utilizing a particular pricing or market index, plus or minus adjustments reflecting quality or location differentials.

Reclassification. Certain reclassifications have been made to prior periods' financial statements to conform to the current presentation as follows: Within the Net Cash Provided by Operating Activities of the Condensed Consolidated Statements of Cash Flows, adjustments were made to certain line items, of which did not change the total amount previous reported. The adjustments did not affect the Condensed Consolidated Balance Sheets or the Condensed Consolidated Statements of Operations.

Prepaid Expenses and Other Assets. The amounts recorded are expected to be realized within one year and the major categories are presented in the following table (in thousands):

	September 30, 2018	December 31, 2017
Prepaid/accrued insurance	$ 4,214	$ 2,401
Surety bond unamortized premiums	2,847	2,676
Prepaid deposits related to royalties	9,698	6,456
Advances for capital expenditures	860	—
Derivative contract premiums	791	—

Other	1,289	1,886
Prepaid expenses and other assets	$ 19,699	$ 13,419

W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Oil and Natural Gas Properties and Other, Net – at cost. Oil and natural gas properties and equipment are recorded at cost using the full cost method. There were no amounts excluded from amortization as of the dates presented in the following table (in thousands):

	September 30, 2018	December 31, 2017
Oil and natural gas properties and equipment	$8,146,742	$8,102,044
Furniture, fixtures and other	20,227	21,831
Total property and equipment	8,166,969	8,123,875
Less accumulated depreciation, depletion and amortization	7,644,188	7,544,859
Oil and natural gas properties and other, net	$522,781	$579,016

Other Assets (long-term). The major categories are presented in the following table (in thousands):

	September 30, 2018	December 31, 2017
Escrow deposit - Apache lawsuit	$ 49,500	$ 49,500
Appeal bond deposits	6,925	6,925
Investment in White Cap, LLC	2,648	2,511
Deposit related to letters of credit	4,702	—
Unamortized brokerage fee for Monza	1,981	—
Proportional consolidation of Monza's other assets (Note 4)	2,212	—
Other	1,046	1,457
Total other assets	$ 69,014	$ 60,393

Accrued Liabilities. The major categories are presented in the following table (in thousands):

	September 30, 2018	December 31, 2017
Accrued interest	$ 15,041	$ 4,200
Accrued salaries/payroll taxes/benefits	2,291	2,454
Incentive compensation plans	6,452	7,366
Litigation accruals	3,604	3,480
Derivative contracts	3,252	84
Other	418	346
Total accrued liabilities	$ 31,058	$ 17,930

Other Liabilities (long-term). The major categories are presented in the following table (in thousands):

	September 30, 2018	December 31, 2017
Apache lawsuit	$ 49,500	$ 49,500
Uncertain tax positions including interest/penalties	11,379	11,015
Dispute related to royalty deductions	4,687	—
Dispute related to royalty-in-kind	2,100	914
Other	5,509	5,437
Total other liabilities (long-term)	$ 73,175	$ 66,866

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Recent Accounting Developments. In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a financing or operating lease. However, unlike current GAAP, which requires only capital or financing leases to be recognized on the balance sheet, ASU 2016-02 will require both types of leases to be recognized on the balance sheet. ASU 2016-02 also will require disclosures to help investors and other financial statement users to better understand the amount, timing and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. ASU 2016-02 does not apply for leases for oil and gas properties, but does apply to equipment used to explore and develop oil and gas resources. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using the modified retrospective approach. Our current operating leases that will be impacted by ASU 2016-02 are leases for office space, which is primarily in Houston, Texas, although ASU 2016-02 may impact the accounting for leases related to equipment depending on the term of the lease. We currently do not have any leases classified as financing leases nor do we have any leases recorded on the Condensed Consolidated Balance Sheets. We have not yet fully determined or quantified the effect ASU 2016-02 will have on our financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326) ("ASU 2016-13"). The new guidance eliminates the probable recognition threshold and broadens the information to consider past events, current conditions and forecasted information in estimating credit losses. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted for fiscal years beginning after December 15, 2018. We have not yet fully determined or quantified the effect ASU 2016-13 will have on our financial statements.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). The amendments in ASU 2017-12 require an entity to present the earnings effect of the hedging instrument in the same income statement line in which the earning effect of the hedged item is reported. This presentation enables users of financial statements to better understand the results and costs of an entity's hedging program. Also, relative to current GAAP, this approach simplifies the financial statement reporting for qualifying hedging relationships. ASU 2017-12 is effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. As we do not designate our commodity derivative instruments as qualifying hedging instruments, our assessment is this amendment will not impact the presentation of the changes in fair values of our commodity derivative instruments on our financial statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

2. Long-Term Debt

The components of our long-term debt are presented in the following table (in thousands):

	September 30, 2018			December 31, 2017		
	Principal	Adjustments to Carrying Value (1)	Carrying Value	Principal	Adjustments to Carrying Value (1)	Carrying Value
11.00% 1.5 Lien Term Loan, due November 2019:						
Principal	$75,000	$ —	$75,000	$75,000	$ —	$75,000
Future interest payments	—	9,425	9,425	—	15,596	15,596
Subtotal	75,000	9,425	84,425	75,000	15,596	90,596
9.00 % Second Lien Term Loan, due May 2020:	300,000	—	300,000	300,000	—	300,000
9.00%/10.75% Second Lien PIK Toggle Notes, due May 2020:						
Principal	177,513	—	177,513	171,769	—	171,769
Future payments-in-kind	—	—	—	—	5,745	5,745
Future interest payments	—	31,952	31,952	—	34,872	34,872
Subtotal	177,513	31,952	209,465	171,769	40,617	212,386
8.50%/10.00% Third Lien PIK Toggle Notes, due June 2021:						
Principal	160,852	—	160,852	153,192	—	153,192
Future payments-in-kind	—	3,664	3,664	—	11,323	11,323
Future interest payments	—	38,682	38,682	—	38,682	38,682
Subtotal	160,852	42,346	203,198	153,192	50,005	203,197
8.50% Unsecured Senior Notes, due June 2019	189,829	—	189,829	189,829	—	189,829
Debt premium, discount, issuance costs, net of amortization	—	(2,980)	(2,980)	—	(3,956)	(3,956)
Total long-term debt	903,194	80,743	983,937	889,790	102,262	992,052
Current maturities of long-term debt (2)	189,829	34,985	224,814	—	22,925	22,925
Long term debt, less current	$713,365	$ 45,758	$759,123	$889,790	$ 79,337	$969,127

maturities

(1) Future interest payments and future payments-in-kind are recorded on an undiscounted basis.
(2) Represents principal of the 8.50% Unsecured Senior Notes due June 15, 2019 and future interest payments on the 1.5 Lien Term Loan, Second Lien PIK Toggle Notes and Third Lien PIK Toggle Notes due within twelve months.

W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Debt Issuance, Repayment of Long-Term Debt and the New Revolving Credit Agreement

As described in Note 12, Subsequent Events, on October 18, 2018, we issued the Senior Second Lien Notes and entered into the New Revolving Credit Agreement. The proceeds from the issuance of the Senior Second Lien Notes, cash on hand and borrowings under the New Revolving Credit Agreement were used to repurchase and retire, repay or irrevocably redeem all of our existing notes and term loans outstanding and fund debt issuance costs.

The following discussion and descriptions relate to our long-term debt as of September 30, 2018:

Accounting for Certain Debt Instruments

We accounted for a transaction executed on September 7, 2016 as a Troubled Debt Restructuring pursuant to the guidance under Accounting Standard Codification 470-60, Troubled Debt Restructuring ("ASC 470-60"). Under ASC 470-60, the carrying value of the 9.00/ 10.75% Second Lien Payment-In-Kind ("PIK") Toggle Notes, due May 15, 2020, (the "Second Lien PIK Toggle Notes"); the 8.50%/10.00% Third Lien PIK Toggle Notes, due June 15, 2021, (the "Third Lien PIK Toggle Notes") and the 11.00% 1.5 Lien Term Loan, due November 15, 2019 (the "1.5 Lien Term Loan") (collectively, the "2016 Restructuring Transactions") are measured using all future undiscounted payments (principal and interest); therefore, no interest expense has been recorded for the 2016 Restructuring Transactions in the Condensed Consolidated Statements of Operations for the periods presented. Additionally, no interest expense related to the 2016 Restructuring Transactions will be recorded in the fourth quarter of 2018 as payments of interest on the 2016 Restructuring Transactions will be recorded as a reduction in the carrying amount; thus, our reported interest expense will be significantly less than the contractual interest payments. Under ASC 470-60, payments related to the 2016 Restructuring Transactions are reported in the financing section of the Condensed Consolidated Statements of Cash Flows.

The primary terms of our long-term debt are described below:

Prior Credit Agreement. The Fifth Amended and Restated Credit Agreement, (the "Prior Credit Agreement") provided a revolving bank credit facility and would have expired by its term on November 8, 2018. The primary items of the Prior Credit Agreement are as follows, with certain terms defined under the Prior Credit Agreement:

- The Borrowing Base of $150.0 million.
- Letters of credit limit of up to $150.0 million, provided availability under the revolving bank credit facility exists.
- The First Lien Leverage Ratio limit of 2.00 to 1.00.
- The Current Ratio, as defined in the Prior Credit Agreement, was required to be greater than 1.00 to 1.00.
- Deposit accounts could only be established with banks under the Prior Credit Agreement with certain exceptions.
    - We could not have unrestricted cash balances above $35.0 million if outstanding balances under the Prior Credit Agreement (including letters of credit) are greater than $5.0 million.
- To the extent there are borrowings, they were primarily executed as Eurodollar Loans, and the applicable margins range from 3.00% to 4.00%.
- The commitment fee was 50 basis points for all levels of utilization.

As of September 30, 2018 and December 31, 2017, we did not have any borrowings outstanding under the Prior Credit Agreement and had $9.7 million and $0.3 million of letters of credit outstanding, respectively. Available credit as of September 30, 2018 was $140.3 million. As of September 30, 2018, we had on deposit $4.7 million with the lead bank in compliance with the terms of the Prior Credit Agreement, as letters of credit are considered borrowings and our unrestricted cash balance exceeded $35.0 million. On October 18, 2018, the Prior Credit Agreement was replaced by the New Revolving Credit Agreement, as described in Note 12, Subsequent Events.

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1.5 Lien Term Loan. In September 2016, we entered into the 1.5 Lien Term Loan with a maturity date of November 15, 2019. Interest accrued at 11.00% per annum and is payable quarterly in cash. The 1.5 Lien Term Loan was secured by a 1.5 priority lien on all of our assets pledged under the Prior Credit Agreement. The lien securing the 1.5 Lien Term Loan was subordinated to the liens securing the Prior Credit Agreement and has priority above the liens securing the Second Lien Term Loan (defined below), the Second Lien PIK Toggle Notes and the Third Lien PIK Toggle Notes. All future undiscounted cash flows as of September 30, 2018 have been included in the carrying value under ASC 470-60. On October 18, 2018, the 1.5 Lien Term Loan was repaid in full, as described in Note 12, Subsequent Events.

Second Lien Term Loan. In May 2015, we entered into the 9.00% Term Loan (the “Second Lien Term Loan”), which had an annual interest rate of 9.00%. The Second Lien Term Loan was issued at a 1.0% discount to par with a maturity date of May 15, 2020 and has been recorded at its carrying value consisting of principal, unamortized discount and unamortized debt issuance costs as of September 30, 2018. Interest on the Second Lien Term Loan was payable in arrears semi-annually on May 15 and November 15. The estimated annual effective interest rate on the Second Lien Term Loan was 9.6%, which included amortization of debt issuance costs and discounts. The Second Lien Term Loan was secured by a second-priority lien on all of our assets that are secured under the Prior Credit Agreement. The Second Lien Term Loan was effectively subordinate to the Prior Credit Agreement and the 1.5 Lien Term Loan (discussed above) and was effectively pari passu with the Second Lien PIK Toggle Notes (discussed below). On October 18, 2018, the Second Lien Term Loan was repaid in full, as described in Note 12, Subsequent Events.

Second Lien PIK Toggle Notes. In September 2016, we issued Second Lien PIK Toggle Notes with a maturity date of May 15, 2020. Interest was payable on May 15 and November 15 of each year. For the interest period from November 15, 2017 up to and including March 6, 2018, we had the option to pay all or a portion of interest in-kind at the rate of 10.75% per annum, which if so exercised, is added to the principal amount. After March 6, 2018, interest was payable in cash at the rate of 9.00% per annum. The Second Lien PIK Toggle Notes were secured by a second-priority lien on all of our assets that are pledged under the Prior Credit Agreement. The Second Lien PIK Toggle Notes were effectively subordinate to the Prior Credit Agreement and the 1.5 Lien Term Loan and were effectively pari passu with the Second Lien Term Loan. On October 18, 2018, all of the outstanding Second Lien PIK Toggle Notes were repurchased by the Company and retired or irrevocably called for redemption, as described in Note 12, Subsequent Events.

Third Lien PIK Toggle Notes. In September 2016, we issued Third Lien PIK Toggle Notes with a maturity date of June 15, 2021. For the interest periods up to and including September 6, 2018, if we so elected, we had the option to pay all or a portion of interest in-kind at a rate of 10.00% per annum. If so elected, such in-kind were added to the principal amount. After September 6, 2018, interest was payable in cash at the rate of 8.50% per annum. The Third Lien PIK Toggle Notes were secured by a third-priority lien on all of our assets that were secured under the Prior Credit Agreement. The Third Lien PIK Toggle Notes were effectively subordinate to the Second Lien Term Loan and the Second Lien PIK Toggle Notes. On October 18, 2018, all of the outstanding Third Lien PIK Toggle Notes were repurchased by the Company and retired or irrevocably called for redemption, as described in Note 12, Subsequent Events.

Unsecured Senior Notes. Our 8.500% Unsecured Senior Notes outstanding, which had an annual interest rate of 8.50% and maturity date of June 15, 2019, (the “Unsecured Senior Notes”), were recorded at their carrying value, which includes unamortized debt premium and unamortized debt issuance costs. Interest on the Unsecured Senior Notes was payable semi-annually in arrears on June 15 and December 15. The estimated annual effective interest rate on the Unsecured Senior Notes was 8.4%, which included amortization of premiums and debt issuance costs. On October

18, 2018, all of the outstanding Unsecured Senior Notes were repurchased by the Company and retired or irrevocably called for redemption, as described in Note 12, Subsequent Events.

Covenants. We were in compliance with all applicable covenants for all of our debt instruments as of September 30, 2018.

For information about fair value measurements for our long-term debt, refer to Note 3, Fair Value Measurements.

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3. Fair Value Measurements

We measure the fair value of our open derivative financial instruments by applying the income approach, using models with inputs that are classified within Level 2 of the valuation hierarchy. The fair value of the 1.5 Lien Term Loan was estimated using the carrying value of the principal as only one entity has been the holder of the 1.5 Lien Term Loan. The fair values of our Second Lien Term Loan, Second Lien PIK Toggle Notes, Third Lien PIK Toggle Notes and Unsecured Senior Notes were based on quoted prices, although the market is not a very active market; therefore, the fair value is classified within Level 2.

The following table presents the fair value of our long-term debt, all of which are classified as Level 2 within the valuation hierarchy (in thousands):

	Hierarchy	September 30, 2018	December 31, 2017
11.00% 1.5 Lien Term Loan, due November 2019	Level 2	$ 75,000	$ 75,000
9.00 % Second Lien Term Loan, due May 2020	Level 2	303,000	288,000
9.00%/10.75% Second Lien PIK Toggle Notes, due May 2020	Level 2	179,289	162,322
8.50%/10.00% Third Lien PIK Toggle Notes, due June 2021	Level 2	165,677	119,490
8.50% Unsecured Senior Notes, due June 2019	Level 2	188,880	178,439

The long-term debt items are reported on the Condensed Consolidated Balance Sheets at their carrying value as described in Note 2, Long-Term Debt. See Note 7, Derivative Financial Instruments, for the fair value of our open derivative contracts, which is classified as Level 2 in the reporting hierarchy and is reported in the Condensed Consolidated Balance Sheets using fair value.

4. Drilling Program Joint Venture

On March 12, 2018, W&T and two other initial members formed and initially funded a limited liability company, Monza Energy LLC, a Delaware limited liability company, that will jointly participate with us in the exploration, drilling and development of up to 14 identified drilling projects (the "JV Drilling Program") in the Gulf of Mexico over the next three years. W&T initially contributed 88.94% of its working interest in 14 identified undeveloped drilling projects to Monza and retained 11.06% of its working interest. The Monza board has approved the substitution of one of these identified undeveloped drilling projects, the Viosca Knoll 823 ("VK 823") A-14 well, with the VK 823 A-13 well, which is in the process of being contributed to Monza through the conveyance by W&T of 58.71% of its working interest in such well to Monza and retaining 41.29% of its working interest in such well. The interest in the VK823 A-14 well is in process of being reconveyed to W&T. Since the initial closing, additional investors have joined as members of Monza and as of September 30, 2018, total commitments by all members, including W&T, are $361.4 million. Monza has closed off funding from additional investors. The JV Drilling Program is structured so that we initially receive an aggregate of 30.0% of the revenues less expenses, through both our direct ownership of our working interest in the projects and our indirect interest through our interest in Monza, for contributing 20.0% of the estimated total well costs plus associated leases and providing access to available infrastructure at agreed upon rates. For one well in the JV Drilling Program, a modification was approved exempting W&T from funding certain cost overruns and W&T is receiving 20% of the revenues less expenses of its prior interest on a combined basis, which removes W&T's promote in this well. W&T will be the operator of each well in the JV Drilling Program unless there is already a designated third-party operator.

The members of Monza are made up of third-party investors, W&T and an entity owned and controlled by Mr. Tracy W. Krohn, our Chairman and Chief Executive Officer. The Krohn entity invested as a minority investor on the same terms and conditions as the third-party investors and its investment is limited to 4.5% of total invested capital within Monza. The entity affiliated with Mr. Krohn has made a capital commitment to Monza of $14.5 million.

At the inception of Monza, W&T received a net reimbursement of approximately $20 million for the capital expenditures incurred prior to the close date for projects in the JV Drilling Program. W&T may be obligated to fund certain cost overruns, subject to certain exceptions, on JV Drilling Program wells above budgeted and contingency amounts. As of September 30, 2018, members of Monza made partner capital contribution payments to Monza totaling $114.7 million.

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Information on the structure and relationship follows:

Board Structure and Authority. Under the Monza limited liability agreement, the business and affairs of Monza are managed by a board of five directors, which will consist of three directors selected by the third-party investors, Mr. Krohn, and an additional independent director will be selected by a majority of the third-party investors in Monza subject to consent by W&T. The independent director and one of the directors to be selected by the investors have not yet been selected. The day-to-day operations of Monza are being managed by W&T, under the direction of the Monza board, pursuant to a services agreement. W&T has no control over the decisions of the Monza board. W&T has veto rights for certain decisions, but does not have the ability to unilaterally make decisions for Monza, except for day-to-day decisions as permitted under the services agreement. The Monza board is responsible for the management of Monza and for making decisions with respect to its interest in the 14 drilling projects, including approval of the budgets.

Accounting Methodology and Carrying Amounts. Our interest in Monza is considered to be a variable interest entity that we account for using proportional consolidation. We do not fully consolidate Monza because we are not considered the primary beneficiary and we utilize proportional consolidation to account for our interest in the Monza properties. As of September 30, 2018, in the Condensed Consolidated Balance Sheet, we recorded $7.5 million, net, in oil and natural gas properties, $2.2 million in other assets and $2.6 million, net, increase in working capital in connection with our proportional interest in Monza's assets and liabilities. For the nine months ended September 30, 2018, we recorded $2.2 million in revenue, $1.1 million in operating expense and $0.3 million, net, in other expense in connection with our proportional interest in Monza's operations.

Maximum Exposure. Our contribution to Monza as of September 30, 2018 was $53.5 million, which consisted of cash and the conveyance of the Company's working interest in the 14 projects. We may also take responsibility for certain drilling and completion cost overruns, subject to certain limitations and certain exceptions, of which the total exposure cannot be estimated at this time.

5. Acquisitions and Divestitures

Heidelberg Field. On April 5, 2018, we closed on the purchase from Cobalt International Energy, Inc. of a 9.375% non-operated working interest in the Heidelberg field located in Green Canyon blocks 859, 903 and 904. The gross purchase price was $31.1 million which was adjusted for certain closing items and an effective date of January 1, 2018. Cash flows generated by the acquired interest between the effective date and the closing date reduced the net purchase price to $16.8 million. We determined that the assets acquired did not meet the definition of a business; therefore, the transaction was accounted for as an asset acquisition. In connection with this transaction, we were required to furnish a letter of credit of $9.4 million to a pipeline company as consignee. We recognized asset retirement obligations ("ARO") of $3.6 million as a component of the transaction. In conjunction with the purchase of an interest in the Heidelberg field, we assumed contracts with certain pipeline companies that contain minimum quantities obligations through 2028 resulting in an estimated commitment of $19.6 million.

Permian Basin. On September 28, 2018, we closed on the divestiture of all of our ownership in an overriding royalty interests in the Permian Basin. The net proceeds received were $50.5 million, which was recorded as a reduction to our full-cost pool. We may receive additional proceeds of up to $6.4 million from the transaction if certain title defects are cured during the 90 days following the closing date.

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6. Asset Retirement Obligations

Our ARO primarily represents 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.

A summary of the changes to our ARO is as follows (in thousands):

Balance, December 31, 2017	$300,446
Liabilities settled	(22,764)
Accretion of discount	13,872
Liabilities assumed through purchase	3,597
Revisions of estimated liabilities (1)	18,065
Balance, September 30, 2018	313,216
Less current portion	30,207
Long-term	$283,009

(1) Upward revisions were primarily related to a non-operated field covering multiple wells, which experienced difficulties during the remediation process coupled with scope change due to the size of its platform. In addition, another non-operated field experienced difficulties with a sub-contractor that had gone bankrupt and a replacement sub-contractor is attempting to re-negotiate the contract. We do not have control over the remediation projects for non-operated properties. Along with these two non-operated fields, we had upward revisions at two fields that were operated by us which experienced sustained casing pressure issues during the remediation process.

7. Derivative Financial Instruments

Our market risk exposure relates primarily to commodity prices and, from time to time, we use various derivative instruments to manage our exposure to this commodity price risk from sales of our crude oil and natural gas. Some of the derivative counterparties are also lenders or affiliates of lenders participating in our Prior Credit Agreement. We are exposed to credit loss in the event of nonperformance by the derivative counterparties; however, we currently anticipate that each of our derivative counterparties will be able 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.

We have elected not to designate our commodity derivative contracts as hedging instruments; therefore, all changes in the fair value of derivative contracts were recognized currently in earnings during the periods presented. The cash flows of all of our commodity derivative contracts are included in Net cash provided by operating activities on the Condensed Consolidated Statements of Cash Flows.

During the second quarter of 2018, we entered into crude oil derivative contracts which relate to a portion of our expected crude oil production from May 2018 to December 2018. The crude oil contracts are based on West Texas Intermediate ("WTI") crude oil prices as quoted off the New York Mercantile Exchange ("NYMEX"). During the first quarter of 2017, we entered into commodity contracts for crude oil and natural gas, all of which had expired as of December 31, 2017.

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As of September 30, 2018, our open crude oil derivative contracts were as follows:

Crude Oil: Swap, Priced off WTI (NYMEX)

Termination Period	Notional Quantity (Bbls/day) (1)	Notional Quantity (Bbls) (1)	Strike Price
2018 December	2,000	184,000	$63.80

Crude Oil: Puts, Priced off WTI (NYMEX)

Termination Period	Notional Quantity (Bbls/day) (1)	Notional Quantity (Bbls) (1)	Put Price
2018 December	5,000	460,000	$60.00

Crude Oil: Two-way collars, Priced off WTI (NYMEX)

	Notional	Notional	Contract Prices	
Termination Period	Quantity (Bbls/day) (1)	Quantity (Bbls) (1)	Put Option (Bought)	Call Option (Sold)
2018 December	2,000	184,000	$60.00	$69.50
2018 December	2,000	184,000	$55.00	$72.75

(1) bbls = barrels

The swap and two-way collars were "cost-less" contracts, in that no premiums were paid or received. For the put option contract, the $2.1 million premium is being amortized over the life of the contract and recorded in Prepaid and other assets on the Condensed Consolidated Balance Sheet. See Note 1, Basis of Presentation.

Our open and closed (not settled) commodity derivative contracts were recorded within the line Accrued liabilities on the Condensed Consolidated Balance Sheet summarized in the following table (in thousands):

	September 30, 2018	December 31, 2017
Open contracts	$ 2,840	$ —
Closed contracts - not settled	412	84
Total contracts	$ 3,252	$ 84

Changes in the fair value and settlements of our commodity derivative contracts were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Derivative (gain) loss	$(288)	$2,879	$5,931	$(4,765)

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Cash receipts (payments), net, on commodity derivative closed contracts are included within Net cash provided by operating activities on the Condensed Consolidated Statements of Cash Flows and were as follows (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Cash receipts (payments) on derivative settlements, net	$(3,091)	$3,924

Offsetting Commodity Derivatives

All our commodity derivative contracts permit netting of derivative gains and losses upon settlement. In general, the terms of the contracts provide for offsetting of amounts payable or receivable between us and the counterparty, at the election of both parties, for transactions that occur on the same date and in the same commodity. If an event of default were to occur causing an acceleration of payment under our Prior Credit Agreement, that event may also trigger an acceleration of settlement of some of our derivative instruments. If we were required to settle all of our open derivative contracts, we would be able to net payments and receipts per counterparty pursuant to the derivative contracts. Although our derivative contracts allow for netting, which would allow for recording assets and liabilities per counterparty on a net basis, we have historically accounted for our derivative contracts on a gross basis per contract as either an asset or liability. As of September 30, 2018, there would have been no difference in the presentation of our commodity derivatives on a gross or net basis.

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

Awards to Employees. In 2010, the W&T Offshore, Inc. Amended and Restated Incentive Compensation Plan (as amended from time to time, the "Plan") was approved by our shareholders. During 2018, 2017 and 2016, the Company granted restricted stock units ("RSUs") under the Plan to certain of its employees. RSUs are a long-term compensation component and are granted to certain employees, and are subject to satisfaction of certain predetermined performance criteria and adjustments at the end of the applicable performance period based on the results achieved. In addition to share-based awards, the Company may grant to its employees cash-based incentive awards under the Plan, which are both a short-term and long-term compensation component and are subject to satisfaction of certain predetermined performance criteria.

As of September 30, 2018, there were 13,342,827 shares of common stock available for issuance in satisfaction of awards under the Plan. The shares available for issuance are reduced on a one-for-one basis when RSUs are settled in shares of common stock, which shares of common stock may be issued net of withholding tax if an awardee elects to satisfy his or her tax liability through the withholding of shares. The Company has the option following vesting to settle RSUs in stock or cash, or a combination of stock and cash. The Company expects to settle RSUs that vest in the future using shares of common stock.

RSUs currently outstanding relate to the 2018, 2017 and 2016 grants, which are subject to predetermined performance criteria applied against the applicable performance period. These RSUs continue to be subject to employment-based criteria and vesting generally occurs in December of the second year after the grant. See the table below for anticipated vesting by year.

We recognize compensation cost for share-based payments to employees over the period during which the recipient is required to provide service in exchange for the award. Compensation cost is based on the fair value of the equity instrument on the date of grant. The fair values for the RSUs granted during 2018, 2017 and 2016 were determined using the Company's closing price on the grant date. We are also required to estimate forfeitures, resulting in the recognition of compensation cost only for those awards that are expected to actually vest.

All RSUs awarded are subject to forfeiture until vested and cannot be sold, transferred or otherwise disposed of during the restricted period.

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A summary of activity related to RSUs during the nine months ended September 30, 2018 is as follows:

	Restricted Stock Units	
	Units	Weighted Average Grant Date Fair Value Per Unit
Nonvested, December 31, 2017	5,765,251	$ 2.48
Granted	986,333	6.90
Vested	(28,503)	2.38
Forfeited/adjustments	(113,014)	2.45
Nonvested, September 30, 2018	6,610,067	3.14

For the RSUs that vested during 2018, the aggregate fair value at the grant dates was $0.1 million and the aggregate fair value at the vesting date was $0.2 million.

For the outstanding RSUs issued to the eligible employees as of September 30, 2018, vesting is expected to occur as follows (subject to any forfeitures):

	Restricted Stock Units
2018	3,657,375
2019	1,966,359
2020	986,333
Total	6,610,067

Awards to Non-Employee Directors. Under the W&T Offshore, Inc. 2004 Directors Compensation Plan (as amended from time to time, the “Director Compensation Plan”), shares of restricted stock (“Restricted Shares”) have been granted to the Company’s non-employee directors. Grants to non-employee directors were made during 2018, 2017 and 2016. As of September 30, 2018, there were 128,980 shares of common stock available for issuance in satisfaction of awards under the Director Compensation Plan. The shares available are reduced on a one-to-one basis when Restricted Shares are granted.

We recognize compensation cost for share-based payments to non-employee directors over the period during which the recipient is required to provide service in exchange for the award. Compensation cost is based on the fair value of the equity instrument on the date of grant. The fair values for the Restricted Shares granted were determined using the Company’s closing price on the grant date. No forfeitures were estimated for the non-employee directors’ awards.

The Restricted Shares are subject to service conditions and vesting occurs at the end of specified service periods unless approved by the Board of Directors. Restricted Shares 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 Restricted Shares, including the right to vote and receive dividends or other distributions paid with respect to the Restricted Shares.

A summary of activity related to Restricted Shares is as follows:

	Restricted Shares	
	Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested, December 31, 2017	246,528	$ 2.27
Granted	41,544	6.74
Vested	(106,240)	2.64
Nonvested, September 30, 2018	181,832	3.08

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For the Restricted Shares that vested during 2018, the aggregate fair value at the grant dates was $0.3 million and the aggregate fair value at the vesting date was $0.7 million.

For the outstanding Restricted Shares issued to the non-employee directors as of September 30, 2018, vesting is expected to occur as follows (subject to any forfeitures):

	Restricted Shares
2019	105,012
2020	62,972
2021	13,848
Total	181,832

Share-Based Compensation. Share-based compensation expense is recorded in the line General and administrative expenses in the Condensed Consolidated Statements of Operations. Share-based compensation was lower in the three and nine months ended September 30, 2018 compared to the prior year period due to timing of the grant date and changes in the 2018 program. 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,	
	2018	2017	2018	2017
Share-based compensation expense from:				
Restricted stock units	$1,304	$1,914	$3,598	$6,114
Restricted Shares	70	70	210	210
Total	$1,374	$1,984	$3,808	$6,324
Share-based compensation tax benefit:				
Tax benefit computed at the statutory rate	$289	$694	$800	$2,213

Unrecognized Share-Based Compensation. As of September 30, 2018, unrecognized share-based compensation expense related to our awards of RSUs and Restricted Shares was $8.3 million and $0.4 million, respectively. Unrecognized share-based compensation expense will be recognized through November 2020 for RSUs and April 2021 for Restricted Shares.

Cash-Based Incentive Compensation. In addition to share-based awards, cash-based awards were granted under the Plan to eligible employees in 2018, 2017 and 2016. For 2018, there are two cash-based awards consisting of a long-term award and a short-term award. All cash-based awards are performance-based awards consisting of predetermined performance criteria applied against the applicable performance period. The 2018 long-term, cash-based awards will be eligible for payment on December 14, 2020 subject to participants meeting certain performance criteria. The 2018 short-term, cash-based awards will be eligible for payment on or about March 15, 2019 subject to participants meeting certain eligibility criteria. The cash-based awards for the 2018 short-term program, the 2017 program and the 2016 program include an additional financial condition requiring Adjusted EBITDA less reported Interest Expense Incurred (as defined in the awards) for any fiscal quarter plus the three preceding quarters to exceed defined levels measured over defined time periods for each cash-based award as described below. Expense for each program is recognized over the service period once the applicable financial condition is expected to be met, and the business criteria and individual performance criteria can be reasonably estimated for the applicable period.

- For the 2018 long-term, cash-based program, incentive compensation expense was based on estimates for full-year 2018 company performance metrics which were assessed as probable to be achieved and is being recognized over the September 2018 to November 2020 period.
- For the 2018 short-term, cash-based program, the financial condition requirement of Adjusted EBITDA less reported Interest Expense Incurred exceeding $200 million over four consecutive quarters was assessed as probable to be achieved; therefore, expense was recorded based on estimates for full-year 2018 Company metrics and historic individual performance measures, and is being recognized over the January 2018 to February 2019 period.

- For the 2017 cash-based awards, a portion of the business criteria and individual performance criteria were achieved. The financial condition requirement of Adjusted EBITDA less reported Interest Expense Incurred exceeding $200 million over four consecutive quarters was achieved; therefore, incentive compensation expense was recognized in 2017 and in the first two months of 2018 for the 2017 cash-based awards. Payments were made in March 2018.
- For the 2016 cash-based awards, the financial condition requirement of Adjusted EBITDA less reported Interest Expense Incurred exceeding $300 million over four consecutive quarters was assessed as not being probable to be achieved; therefore no expense was recognized as of September 30, 2018. The terms of the 2016 cash-based awards allow for the achievement of the financial condition up through December 31, 2018. If the financial condition is achieved, payment is to be made within 30 days of achievement of the financial condition.

A summary of compensation expense related to share-based awards and cash-based awards is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Share-based compensation included in:				
General and administrative expenses	$1,374	$1,984	$3,808	$6,324
Cash-based incentive compensation included in:				
Lease operating expense	837	930	2,240	1,324
General and administrative expenses	1,534	2,287	5,597	3,291
Total charged to operating income	$3,745	$5,201	$11,645	$10,939

9. Income Taxes

Our income tax expense for the three and nine months ended September 30, 2018 was $0.1 million and $0.4 million, respectively. Our income tax expense for the three months ended September 30, 2017 was $5.5 million and our income tax benefit for the nine months ended September 30, 2017 was $11.1 million. Our effective tax rate was not meaningful for the periods presented. Based on a full year forecast, we are not expecting any current income tax expense. In addition, immaterial deferred income tax expense was recorded due to dollar-for-dollar offsets by our valuation allowance. The income tax expense for the three months ended September 30, 2017 relates to revisions under GAAP using the annualized effective tax rate method in computing income tax expense or benefit for interim periods and the income tax benefit for the nine months ended September 30, 2017 relates to net operating loss carryback claims made pursuant to Internal Revenue Code (“IRC”) Section 172(f) (related to rules for “specified liability losses”), which permit certain platform dismantlement, well abandonment and site clearance costs to be carried back 10 years.

During the nine months ended September 30, 2018, we did not receive any income tax refunds and made no income tax payments of significance. During the nine months ended September 30, 2017 we received $11.9 million of income tax refunds and made $0.2 million of income tax payments.

As of September 30, 2018, we recorded current income taxes receivable of $65.2 million. As of December 31, 2017, the balance sheet reflected current income taxes receivable of $13.0 million and non-current income taxes receivable of $52.1 million. The receivable primarily relates to a net operating loss claim carried back for 2017 and net operating loss claims for the years 2012, 2013 and 2014 that were carried back to prior years. These carryback claims are made pursuant to IRC Section 172(f) described above. The refund claims require a review by the Congressional Joint Committee on Taxation.

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As of September 30, 2018 and December 31, 2017, our valuation allowance was $148.3 million and $171.5 million, respectively, related to federal and state deferred tax assets. Net deferred tax assets were recorded related to NOLs and temporary differences between the book and tax basis of assets and liabilities expected to produce tax deductions in future periods. 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. In assessing the need for a valuation allowance on our deferred tax assets, we consider whether it is more likely than not that some portion or all of them will not be realized. Although our net deferred tax assets and the related valuation allowance reflect the provisions of the Tax Cuts and Jobs Act ("TCJA"), due to the timing and the complexity of the provisions of the TCJA, further adjustments may be required during 2018 in determination of the final effect in our financial statements.

The tax years 2013 through 2017 remain open to examination by the tax jurisdictions to which we are subject.

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,	
	2018	2017	2018	2017
Net income (loss)	$46,260	$(1,297)	$109,983	$56,317
Less portion allocated to nonvested shares	1,860	—	4,489	2,349
Net income (loss) allocated to common shares	$44,400	$(1,297)	$105,494	$53,968
Weighted average common shares outstanding	138,972	137,575	138,917	137,547
Basic and diluted earnings (loss) per common share	$0.32	$(0.01)	$0.76	$0.39
Shares excluded due to being anti-dilutive (weighted-average)	—	7,709	—	—

11. Contingencies

Apache Lawsuit. On December 15, 2014, Apache filed a lawsuit against the Company alleging that W&T breached the joint operating agreement related to, among other things, the abandonment of three deepwater wells in the Mississippi Canyon ("MC") area of the Gulf of Mexico. A trial court judgment was rendered from the U.S. District Court for the Southern District of Texas on May 31, 2017 directing the Company to pay Apache $43.2 million, plus $6.3 million in prejudgment interest, attorney's fees and costs assessed in the judgment. We filed an appeal of the trial court judgment in the U.S. Court of Appeals for the Fifth Circuit, where oral argument is scheduled for December 4, 2018. Prior to filing the appeal, in order to stay execution of the judgment, we deposited $49.5 million with the registry of the court in June 2017.

The deposit of $49.5 million with the registry of the court is recorded in Other assets (long-term) on the Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017. Although we are appealing the decision, based solely on the decision rendered, we have recorded $49.5 million in Other liabilities (long-term) as of September 30, 2018 and December 31, 2017.

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Appeal with the Office of Natural Resources Revenue (“ONRR”). In 2009, we recognized allowable reductions of cash payments for royalties owed to the ONRR for transportation of their deepwater production through our subsea pipeline systems. In 2010, the ONRR audited our calculations and support related to this usage fee, and in 2010, we were notified that the ONRR had disallowed approximately $4.7 million of the reductions taken. We recorded a reduction to other revenue in 2010 to reflect this disallowance; however, we disagree with the position taken by the ONRR. We filed an appeal with the ONRR, which was denied in May 2014. On June 17, 2014, we filed an appeal with the Interior Board of Land Appeals (“IBLA”) under the Department of the Interior. On January 27, 2017, the IBLA affirmed the decision of the ONRR requiring W&T to pay approximately $4.7 million in additional royalties. We filed a motion for reconsideration of the IBLA decision on March 27, 2017. Based on a statutory deadline, we filed an appeal of the IBLA decision on July 25, 2017 in the U.S. District Court for the Eastern District of Louisiana. We were required to post a bond in the amount of $7.2 million and cash collateral of $6.9 million in order to appeal the IBLA decision. Because the IBLA still has not ruled on W&T’s request for reconsideration, the district court action has been suspended. The court requires periodic reports concerning the status of the request for reconsideration pending before the IBLA. Once the IBLA rules, the district court action will return to the court’s active docket.

Royalties-In-Kind (“RIK”). Under a program of the Minerals Management Service (“MMS”) (a Department of Interior agency and predecessor to the ONRR), royalties must be paid “in-kind” rather than in value from federal leases in the program. The MMS added to the RIK program our lease at the East Cameron 373 field beginning in November 2001, where in some months we over delivered volumes of natural gas and under delivered volumes of natural gas in other months for royalties owed. The MMS elected to terminate receiving royalties in-kind in October 2008 causing the imbalance to become fixed for accounting purposes. The MMS ordered us to pay an amount based on its interpretation of the program and its calculations of amounts owed. We disagreed with MMS’s interpretations and calculations and filed an appeal with the IBLA, of which the IBLA ruled in MMS’ favor. We filed an appeal with the District Court of the Western District of Louisiana, who assigned the case to a magistrate to review and issue a ruling, and the District Court upheld the magistrate’s ruling on May 29, 2018. We filed an appeal on July 24, 2018. Part of the ruling was in favor of our position and part was in favor of MMS’ position. Based solely on the District Court’s ruling, we recorded a liability reserve of $2.1 million as of September 30, 2018. We have appealed the ruling to the U.S. Fifth Circuit Court of Appeals.

Royalties – “Unbundling” Initiative. The ONRR has publicly announced an “unbundling” initiative to revise the methodology employed by producers in determining the appropriate allowances for transportation and processing costs that are permitted to be deducted in determining royalties under Federal oil and gas leases. The ONRR’s initiative requires re-computing allowable transportation and processing costs using revised guidance from the ONRR going back 84 months for every gas processing plant that processed our gas. In the second quarter of 2015, pursuant to the initiative, we received requests from the ONRR for additional data regarding our transportation and processing allowances on natural gas production related to a specific processing plant. We also received a preliminary determination notice from the ONRR asserting that our allocation of certain processing costs and plant fuel use at another processing plant was not allowed as deductions in the determination of royalties owed under Federal oil and gas leases. We have submitted revised calculations covering certain plants and time periods to the ONRR. As of the filing date of this Form 10-Q, we have not received a response from the ONRR related to our submissions. These open ONRR unbundling reviews, and any further similar reviews, could ultimately result in an order for payment of additional royalties under our Federal oil and gas leases for current and prior periods. For the nine months ended September 30, 2018 and 2017, we paid additional royalty payments of $0.6 million and $1.2 million, respectively. We are not able to determine the range of any additional royalties or, if and when assessed, whether such amounts would be material.

Notices of Proposed Civil Penalty Assessment. During the nine months ended September 30, 2018 and 2017, we did not pay any civil penalties to the Bureau of Safety and Environmental Enforcement (“BSEE”) related to Incidents of Noncompliance (“INCs”) at various offshore locations. We currently have eight open civil penalties issued by the BSEE from INCs, which have not been settled as of the filing date of this Form 10-Q. The INCs underlying the civil penalties relate to separate offshore locations with occurrence dates ranging from July 2012 to January 2018. The proposed civil penalties for these INCs total $7.9 million. We have accrued approximately $3.4 million as of September 30, 2018, which is our best estimate of the final settlements once all appeals have been exhausted. Our position is that the proposed civil penalties are excessive given the specific facts and circumstances related to these INCs.

Surety Bond Collateral. The issuers of surety bonds in some cases have requested and received additional collateral related to surety bonds for plugging and abandonment activities. We may be required to post collateral at any time pursuant to the terms of our agreement with various sureties under our existing bonds, if they so demand at their discretion. We did not receive any collateral demands from surety bond providers during the nine months ended September 30, 2018.

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 including matters related to alleged royalty underpayments on certain federal-owned properties. 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, we believe 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.

12. Subsequent Events

On October 18, 2018, we entered into a series of transactions to effect a refinancing of substantially all of our outstanding indebtedness. On such date, we issued $625.0 million of the Senior Second Lien Notes at par with an interest rate of 9.75% per annum that matures on November 1, 2023, which are governed under the terms of the Indenture of the Senior Second Lien Notes (the “Indenture”). Interest on the Senior Second Lien Notes is payable in arrears on May 1 and November 1 of each year, beginning on May 1, 2019. The Senior Second Lien Notes will be recorded at their carrying value consisting of principal and unamortized debt issuance costs.

Prior to November 1, 2020, we may redeem all or any portion of the Senior Second Lien Notes at a redemption price equal to 100% of the principal amount of the outstanding Senior Second Lien Notes plus accrued and unpaid interest, if any, to the redemption date, plus the “Applicable Premium” (as defined in the Indenture). In addition, prior to November 1, 2020, we may, at our option, on one or more occasions redeem up to 35% of the aggregate original principal amount of the Senior Second Lien Notes in an amount not greater than the net cash proceeds from certain equity offerings at a redemption price of 109.750% of the principal amount of the outstanding Senior Second Lien Notes plus accrued and unpaid interest, if any, to the redemption date.

On and after November 1, 2020, we may redeem the Senior Second Lien Notes, in whole or in part, at redemption prices (expressed as percentages of the principal amount thereof) equal to 104.875% for the 12-month period beginning November 1, 2020, 102.438% for the 12-month period beginning November 1, 2021, and 100.000% on November 1, 2022 and thereafter, plus accrued and unpaid interest, if any, to the redemption date. The Senior Second Lien Notes are guaranteed by Energy VI and W & T Energy VII, LLC (together, the “Guarantor Subsidiaries”). If we experience certain change of control events, we will be required to offer to repurchase the notes at 101.000% of the principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

Certain entities controlled by Tracy W. Krohn, Chairman and Chief Executive Officer of the Company, and his family were invested in certain existing notes of the Company that were repurchased by the Company in connection with the 2018 Refinancing Transaction. The Krohn entities tendered their existing notes on the same terms as were made available to all other holders of the existing notes pursuant to the publicly disclosed Company offer to purchase any and all such notes and reinvested an amount approximately equal to the proceeds from such tenders by purchasing approximately $8.0 million principal in Senior Second Lien Notes at the same price offered to other initial investors in the offering of such notes. As part of the 2018 Refinancing Transaction, the Krohn entities also had their previously disclosed $5.0 million investment in the Company’s Second Lien Term Loan liquidated as the loan was repaid in full.

The Senior Second Lien Notes are secured by a second-priority lien on all of our assets that are secured under the New Revolving Credit Agreement. The Senior Second Lien Notes contain covenants that limit or prohibit our ability and the ability of certain of our subsidiaries to: (i) make investments; (ii) incur additional indebtedness or issue certain types of preferred stock; (iii) create certain liens; (iv) sell assets; (v) enter into agreements that restrict dividends or other payments from the Company's subsidiaries to the Company; (vi) consolidate, merge or transfer all or substantially all of the assets of the Company; (vii) engage in transactions with affiliates; (viii) pay dividends or make other distributions on capital stock or subordinated indebtedness; and (ix) create subsidiaries that would not be restricted by the covenants of the Indenture entered into by and among the Company, the Guarantors, and Wilmington Trust, National Association, as trustee (the "Trustee"). These covenants are subject to exceptions and qualifications set forth in the Indenture. In addition, most of the above described covenants will terminate if both S&P Global Ratings, a division of S&P Global Inc., and Moody's Investors Service, Inc. assign the Senior Second Lien Notes an investment grade rating and no default exists with respect to the Senior Second Lien Notes.

Concurrently with the issuance of the Senior Second Lien Notes, we entered into the New Revolving Credit Agreement with a maturity date of October 18, 2022. The primary items of the New Revolving Credit Agreement are as follows, with certain terms defined under the New Revolving Credit Agreement:

- The initial borrowing base and lending commitment is $250.0 million.
- Letters of credit may be issued in amounts up to $30.0 million, provided availability under the New Revolving Credit Agreement exists.
- The Leverage Ratio, as defined in the New Revolving Credit Agreement, is limited to 3.50 to 1.00 for quarters ending December 31, 2018 and March 31, 2019; 3.25 to 1.00 for quarters ending June 30, 2019 and September 30, 2019; and 3.00 to 1.00 for quarters ending December 31, 2019 and thereafter. In the event of a Material Acquisition, as defined in the New Revolving Credit Agreement, the Leverage Ratio limit is 3.50 to 1.00 for the two quarters following a Material Acquisition.
- The Current Ratio, as defined in the New Revolving Credit Agreement, must be greater than 1.00 to 1.00.
- We are required to have deposit accounts only with banks under the New Revolving Credit Agreement with certain exceptions.
- To the extent there are borrowings, the Applicable Margins, as defined in the New Revolving Credit Agreement, for Eurodollar Loans range from 2.50% to 3.50% per annum and the Applicable Margins for ABR loans range from 1.50% to 2.50% per annum. The specific Applicable Margin rate is based on the Borrowing Base Utilization Percentage.
- The commitment fee is 37.5 basis points if the Borrowing Base Utilization Percentage is below 50% and 50 basis points if the Borrowing Base Utilization Percentage is 50% or greater.
- By December 2, 2018, we are required to have derivative contracts for a minimum of 50% of projected production for 18 months based on existing proved developed producing reserves and certain other criteria. We may enter into these derivative contracts with counter parties within the New Revolving Credit Agreement or with other counter parties meeting certain criteria described in the New Revolving Credit Agreement.

Availability under the New Revolving Credit Agreement 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. The first redetermination will be in the spring of 2019. Any redetermination by our lenders to change our borrowing base will result in a similar change in the availability under the New Revolving Credit Agreement. The New Revolving Credit Agreement's security is collateralized by a first priority lien on substantially all of our oil and natural gas properties and certain personal property.

The New Revolving Credit Agreement contains various customary covenants for certain financial tests, as defined in the New Revolving Credit Agreement, and these tests are measured as of the end of each quarter, and for customary events of default. The customary events of default include: (i) default in the payment of interest on the Senior Second Lien Notes when due, continued for 30 days; (ii) default in payment of the principal of or premium, if any, on the Senior Second Lien Notes when due; (iii) failure by the Company or any of its restricted subsidiaries, if any, to comply with certain covenants relating to merger and consolidation and offers to purchase Senior Second Lien Notes in connection with certain change of control transactions or asset sales; (iv) failure by the Company to comply for 60 days after notice with any of the other agreements in the Indenture; (v) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or any of its restricted subsidiaries (or the payment of which is guaranteed by the Company or any of its restricted subsidiaries) if that default: (a) is caused by a failure to pay principal of, or interest or premium, if any, on such indebtedness prior to the expiration of the grace period provided in such indebtedness (a “Payment Default”); or (b) results in the acceleration of such indebtedness prior to its stated maturity, and, in each case, the principal amount of any such indebtedness, together with the principal amount of any other such indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $50.0 million or more; (vii) certain events of bankruptcy, insolvency or reorganization described in the Indenture with respect to the Company or any of the Company’s restricted subsidiaries that is a significant subsidiary or any group of the Company’s restricted subsidiaries that, taken as a whole, would constitute a significant subsidiary of the Company; (viii) failure by the Company, or any of the Company’s restricted subsidiaries that is a significant subsidiary or any group of the Company’s restricted subsidiaries that, taken as a whole, would constitute a significant subsidiary of the Company, to pay final judgments aggregating in excess of $50.0 million, which judgments are not paid, discharged or stayed for a period of 60 days; (ix) any Security Document (as defined in the Indenture) ceases for any reason to be enforceable with respect to any collateral having a fair market value of not more than $25.0 million, which failure is not cured within 45 days; (x) any second lien purported to be granted under any Security Document on collateral, individually or in the aggregate, having a fair market value in excess of $25.0 million, ceases to be an enforceable and perfected second-priority lien, which failure is not cured within 45 days; and (xi) except as permitted by the Indenture, any future subsidiary guarantee entered into by one of the Company’s subsidiaries shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any guarantor, or any person acting on behalf of any guarantor, shall deny or disaffirm its obligations under its subsidiary guarantee of the Senior Second Lien Notes.

After closing the 2018 Refinancing Transaction on October 18, 2018, we had $61.0 million borrowings outstanding, $9.7 million of letters of credit outstanding and our borrowing availability was $179.3 million under the New Revolving Credit Agreement. We were in compliance with all applicable covenants of the New Revolving Credit Agreement and Senior Second Lien Notes after the 2018 Refinancing Transaction.

The funds from the issuance of the Senior Second Lien Notes, cash on hand and borrowings under the New Revolving Credit Agreement were used to repurchase and retire, repay or irrevocably redeem all of the long-term debt instruments outstanding including accrued interest, tender offer premiums, redemption premiums and debt issuance costs. The 2018 Refinancing Transaction is expected to result in a net gain of approximately $47.0 million that will be recorded in the consolidated statement of operations and approximately $17.9 million of additional capitalized debt issuance costs fees that will be recorded on the balance sheet during the fourth quarter of 2018. As the 2018 Refinancing Transaction substantially changed our capital structure, the following table is provided to present the Condensed Consolidated Balance sheet on a pro forma basis as if the 2018 Refinancing Transaction occurred on September 30, 2018:

W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

	September 30, 2018						
	As Reported	Extinguishment of Debt Adjustments		Debt Issuance Adjustments		Pro Forma	
	(In thousands)						
Assets							
Current assets:							
Cash and cash equivalents	$339,063	$ (954,100	)(1)	$ 671,887	(7)	$56,850	
Total receivables	131,215	—		—		131,215	
Prepaid expenses and other assets	19,699	2,138	(2)	—		21,837	
Total current assets	489,977	(951,962	)	671,887		209,902	
Oil and natural gas properties and other, net	522,781	—		—		522,781	
Restricted deposits for ARO	20,577	—		—		20,577	
Other assets	69,014	—		—		69,014	
Total assets	$1,102,349	$ (951,962	)	$ 671,887		$822,274	
Liabilities and Shareholders' Deficit							
Current liabilities:							
Accounts payable	$95,502	$ —		$ —		$95,502	
Undistributed oil and natural gas proceeds	34,225	—		—		34,225	
Advances from joint interest partners	31,012	—		—		31,012	
Asset retirement obligations	30,207	—		—		30,207	
Current maturities of long-term debt:							
Principal	189,829	(189,829	)(3)	—		—	
Carrying value adjustments	34,985	(34,985	)(4)	—		—	
Current maturities of long-term debt - carrying value	224,814	(224,814	)	—		—	
Accrued liabilities	31,058	(14,989	)(5)	3,787	(8)	19,856	
Total current liabilities	446,818	(239,803	)	3,787		210,802	
Long-term debt:							
Principal	713,365	(713,365	)(3)	625,000	(9)	625,000	
Borrowings on revolving bank credit facility	—	—		61,000	(10)	61,000	
Carrying value adjustments	45,758	(45,758	)(4)	(17,900	)(11)	(17,900	)
Long term debt, less current portion - carrying value	759,123	(759,123	)	668,100		668,100	
Asset retirement obligations, less current portion	283,009	—		—		283,009	
Other liabilities	73,175	—		—		73,175	
Shareholders' deficit:							
Common stock	1	—		—		1	
Additional paid-in capital	549,569	—		—		549,569	
Retained earnings (deficit)	(985,179)	46,964	(6)	—		(938,215	)
Treasury stock, at cost	(24,167)	—		—		(24,167	)
Total shareholders' deficit	(459,776)	46,964		—		(412,812	)

Total liabilities and shareholders’ deficit	$1,102,349	$ (951,962)	$ 671,887	$822,274

Pro Forma Adjustments:

(1) Cash used to extinguish debt including principal, interest, tender offer premiums and redemption premiums.
(2) Prepaid interest related to the Second Lien Term Loan and the Unsecured Senior Notes.
(3) Payment of outstanding debt principal.
(4) Elimination of carrying value adjustments either through payments or write off of remaining balances.
(5) Payment of interest related to the Second Lien Loan and the Unsecured Senior Notes accrued as of September 30, 2018.
(6) Net gain from the write off of the remaining balances of carrying value adjustments, reduced for interest payments on the 1.5 Lien Term Loan, the Second Lien PIK Toggle Notes and the Third Lien PIK Toggle Notes. In addition, the net gain was reduced for premiums related to repurchases pursuant to the early tender offer, redemptions premiums and certain prepayments paid on the existing notes and loans.
(7) Net proceeds from the issuance of the Senior Second Lien Notes and borrowings under the New Revolving Credit Agreement, less debt issuance costs paid of $14.1 million.
(8) Accrued debt issuance costs related to the Senior Second Lien Notes.
(9) Issuance of the Senior Second Lien Notes.
(10) Borrowings under the New Revolving Credit Agreement.
(11) Paid and accrued debt issuance costs related to the Senior Second Lien Notes and New Revolving Credit Agreement.

W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

13. Supplemental Guarantor Information

On September 30, 2018, our payment obligations under the Prior Credit Agreement, the 1.5 Lien Term Loan, the Second Lien Term Loan, the Second Lien PIK Toggle Notes, the Third Lien PIK Toggle Notes and the Unsecured Senior Notes (collectively, the "Existing Notes") were fully and unconditionally guaranteed by certain of our 100%-owned subsidiaries, including the Guarantor Subsidiaries. W & T Energy VII, LLC does not currently have any active operations or contain any assets. Subsequent to the 2018 Refinancing Transaction, the New Revolving Credit Agreement and the Senior Second Lien Notes are fully and unconditionally guaranteed by Guarantor Subsidiaries. Under the indentures governing the Existing Notes and the Senior Second Lien Notes, the guarantees of the Guarantor Subsidiaries can be released under certain circumstances, including:

(1) in connection with any sale or other disposition of all or substantially all of the assets of a Guarantor Subsidiary (including by way of merger or consolidation) to a person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary, if the sale or other disposition does not violate the Asset Sale provisions (as such capitalized terms are defined in the New Revolving Credit Agreement and Senior Second Lien Notes);
(2) in connection with any sale or other disposition of the capital stock of such Guarantor Subsidiary to a person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary of the Company, if the sale or other disposition does not violate the Asset Sale provisions of the New Revolving Credit Agreement and Senior Second Lien Notes and the Guarantor Subsidiary ceases to be a subsidiary of the Company as a result of such sales or disposition;
(3) if such Guarantor Subsidiary is a Restricted Subsidiary and the Company designates such Guarantor Subsidiary as an Unrestricted Subsidiary in accordance with the applicable provisions of the New Revolving Credit Agreement and Senior Second Lien Notes;
(4) upon Legal Defeasance or Covenant Defeasance (as such terms are defined in the applicable indenture) or upon satisfaction and discharge of the New Revolving Credit Agreement and Senior Second Lien Notes;
(5) upon the liquidation or dissolution of such Guarantor Subsidiary, provided no event of default has occurred and is continuing; or
(6) at such time as such Guarantor Subsidiary is no longer required to be a Guarantor Subsidiary as described in the New Revolving Credit Agreement and Senior Second Lien Notes, provided no event of default has occurred and is continuing.

The following condensed consolidating financial information presents the financial condition, results of operations and cash flows of the Parent Company and the Guarantor Subsidiaries, together with consolidating adjustments necessary to present the Company's results on a consolidated basis. As a result of the JV Drilling Program, we recorded proportional consolidation adjustments, which are not considered a guarantor asset under our debt agreements and, accordingly, are reported as non-guarantor adjustments in the following tables. Due to the methodology of recording the ceiling-test write down in prior periods, consolidating adjustments are required to present the consolidated results appropriately. The 2018 Refinancing Transaction substantially changed our capital structure. See Note 12, Subsequent Events, for additional information.

W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Condensed Consolidating Balance Sheet as of September 30, 2018

	Parent Company (In thousands)	Guarantor Subsidiaries	Non-Guarantor Adjustments	Eliminations	Consolidated W&T Offshore, Inc.
Assets					
Current assets:					
Cash and cash equivalents	$339,063	$—	$ —	$—	$339,063
Receivables:					
Oil and natural gas sales	7,946	40,972	564	—	49,482
Joint interest	16,493	—	—	—	16,493
Income taxes	199,203	—	—	(133,963)	65,240
Total receivables	223,642	40,972	564	(133,963)	131,215
Prepaid expenses and other assets	16,707	2,956	36	—	19,699
Total current assets	579,412	43,928	600	(133,963)	489,977
Oil and natural gas properties and other, net	372,660	111,907	49,476	(11,262)	522,781
Restricted deposits for asset retirement obligations	20,577	—	—	—	20,577
Other assets	637,886	589,084	(51,316)	(1,106,640)	69,014
Total assets	$1,610,535	$744,919	$ (1,240)	$(1,251,865)	$1,102,349
Liabilities and Shareholders' Equity (Deficit)					
Current liabilities:					
Accounts payable	$90,260	$7,318	$ (2,076)	$—	$95,502
Undistributed oil and natural gas proceeds	32,806	1,419	—	—	34,225
Advances from joint interest partners	31,012	-	—	—	31,012
Asset retirement obligations	19,479	10,728	—	—	30,207
Current maturities of long-term debt:					
Principal	189,829	—	—	—	189,829
Carrying value adjustments	34,985	—	—	—	34,985
Current maturities of long-term debt - carrying value	224,814	—	—	—	224,814
Accrued liabilities	31,076	133,945	—	(133,963)	31,058
Total current liabilities	429,447	153,410	(2,076)	(133,963)	446,818
Long-term debt:					
Principal	713,365	—	—	—	713,365
Carrying value adjustments	45,758	—	—	—	45,758
Long term debt, less current portion - carrying value	759,123	—	—	—	759,123
Asset retirement obligations, less current portion	162,835	120,154	20	—	283,009
Other liabilities	708,461	—	—	(635,286)	73,175

Shareholders’ equity (deficit):					
Common stock	1	—	—	—	1
Additional paid-in capital	549,569	704,885	—	(704,885)	549,569
Retained earnings (deficit)	(974,734)	(233,530)	816	222,269	(985,179)
Treasury stock, at cost	(24,167)	—	—	—	(24,167)
Total shareholders’ equity (deficit)	(449,331)	471,355	816	(482,616)	(459,776)
Total liabilities and shareholders’ equity (deficit)	$ 1,610,535	$ 744,919	$ (1,240)	$ (1,251,865)	$ 1,102,349

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W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Condensed Consolidating Balance Sheet as of December 31, 2017

	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated W&T Offshore, Inc.
	(In thousands)			
Assets				
Current assets:				
Cash and cash equivalents	$99,058	$—	$—	$99,058
Receivables:				
Oil and natural gas sales	5,665	39,778	—	45,443
Joint interest	19,754	—	—	19,754
Income taxes	128,835	—	(115,829)	13,006
Total receivables	154,254	39,778	(115,829)	78,203
Prepaid expenses and other assets	11,154	2,265	—	13,419
Total current assets	264,466	42,043	(115,829)	190,680
Oil and natural gas properties and other, net	430,354	152,464	(3,802)	579,016
Restricted deposits for asset retirement obligations	25,394	—	—	25,394
Income taxes receivable	52,097	—	—	52,097
Other assets	505,304	453,306	(898,217)	60,393
Total assets	$1,277,615	$ 647,813	$(1,017,848)	$907,580
Liabilities and Shareholders' Deficit				
Current liabilities:				
Accounts payable	$72,705	$ 6,962	$—	$79,667
Undistributed oil and natural gas proceeds	18,762	1,367	—	20,129
Advances from joint interest partners	3,998	—	—	3,998
Asset retirement obligations	22,488	1,125	—	23,613
Current maturities of long-term debt - carrying value	22,925	—	—	22,925
Accrued liabilities	18,058	115,701	(115,829)	17,930
Total current liabilities	158,936	125,155	(115,829)	168,262
Long-term debt:				
Principal	889,790	—	—	889,790
Carrying value adjustments	79,337	—	—	79,337
Long term debt, less current portion - carrying value	969,127	—	—	969,127
Asset retirement obligations, less current portion	152,883	123,950	—	276,833
Other liabilities	566,375	—	(499,509)	66,866
Shareholders' equity (deficit):				
Common stock	1	—	—	1
Additional paid-in capital	545,820	704,885	(704,885)	545,820
Retained earnings (deficit)	(1,091,360)	(306,177)	302,375	(1,095,162)
Treasury stock, at cost	(24,167)	—	—	(24,167)
Total shareholders' equity (deficit)	(569,706)	398,708	(402,510)	(573,508)

Total liabilities and shareholders’ equity (deficit)	$ 1,277,615	$ 647,813	$ (1,017,848)	$ 907,580

W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations for the Three Months Ended September 30, 2018

	Parent Company (In thousands)	Guarantor Subsidiaries	Non-Guarantor Adjustments	Eliminations	Consolidated W&T Offshore, Inc.
Revenues	$79,740	$ 71,964	$ 1,755	$ —	$ 153,459
Operating costs and expenses:					
Lease operating expenses	22,188	15,182	60	—	37,430
Production taxes	432	—	—	—	432
Gathering and transportation	3,193	2,545	41	—	5,779
Depreciation, depletion, amortization and accretion	19,170	15,568	514	1,717	36,969
General and administrative expenses	8,812	7,083	95	—	15,990
Derivative gain	(288)	—	—	—	(288)
Total costs and expenses	53,507	40,378	710	1,717	96,312
Operating income	26,233	31,586	1,045	(1,717)	57,147
Earnings of affiliates	25,977	—	—	(25,977)	—
Interest expense	11,630	—	—	—	11,630
Other (income) expense, net	(912)	—	27	—	(885)
Income before income tax expense (benefit)	41,492	31,586	1,018	(27,694)	46,402
Income tax expense (benefit)	(5,467)	5,609	—	—	142
Net income	$46,959	$ 25,977	$ 1,018	$ (27,694)	$ 46,260

W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations for the Nine Months Ended September 30, 2018

	Parent Company (In thousands)	Guarantor Subsidiaries	Non-Gurantor Adjustments	Eliminations	Consolidated W&T Offshore, Inc.
Revenues	$220,796	$ 214,264	$ 2,224	$ —	$ 437,284
Operating costs and expenses:					
Lease operating expenses	63,565	46,194	96	—	109,855
Production taxes	1,326	—	—	—	1,326
Gathering and transportation	8,730	6,983	51	—	15,764
Depreciation, depletion, amortization and accretion	58,544	48,125	678	7,460	114,807
General and administrative expenses	22,869	22,073	306	—	45,248
Derivative loss	5,931	—	—	—	5,931
Total costs and expenses	160,965				