W&T OFFSHORE INC
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _______________ to ________________

Commission File Number 1-32414

W&T OFFSHORE, INC.

(Exact name of registrant as specified in its charter)

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

(713) 626-8525

(Registrant's telephone number, including area code)

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

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

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

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

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

As of November 2, 2015, there were 76,010,554 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)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$7,463	$23,666
Receivables:		
Oil and natural gas sales	43,955	67,242
Joint interest and other	42,435	43,645
Total receivables	86,390	110,887
Deferred income taxes	4,328	11,662
Prepaid expenses and other assets	25,513	36,347
Total current assets	123,694	182,562
Property and equipment - at cost:		
Oil and natural gas properties and equipment (full cost method, of which $111,677 at September 30, 2015 and $109,824 at December 31, 2014 were excluded from amortization)	8,257,118	8,045,666
Furniture, fixtures and other	21,372	23,269
Total property and equipment	8,278,490	8,068,935
Less accumulated depreciation, depletion and amortization	6,838,075	5,575,078
Net property and equipment	1,440,415	2,493,857
Restricted deposits for asset retirement obligations	15,578	15,444
Other assets	20,284	17,244
Total assets	$1,599,971	$2,709,107
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$107,469	$194,109
Undistributed oil and natural gas proceeds	28,870	37,009
Asset retirement obligations	84,588	36,003
Accrued liabilities	39,171	17,377
Total current liabilities	260,098	284,498
Long-term debt, less current maturities	1,473,348	1,360,057
Asset retirement obligations, less current portion	315,038	354,565
Deferred income taxes	13,173	186,988
Other liabilities	14,065	13,691

Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, $0.00001 par value; 20,000,000 shares authorized; 0 issued at September 30, 2015 and December 31, 2014	—	—
Common stock, $0.00001 par value; 118,330,000 shares authorized; 78,879,727 issued and 76,010,554 outstanding at September 30, 2015; 78,768,588 issued and 75,899,415 outstanding at December 31, 2014	1	1
Additional paid-in capital	422,633	414,580
Retained earnings (deficit)	(874,218)	118,894
Treasury stock, at cost	(24,167)	(24,167)
Total shareholders' equity (deficit)	(475,751)	509,308
Total liabilities and shareholders' equity	$1,599,971	$2,709,107

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,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands except per share data) (Unaudited)			
Revenues	$126,228	$234,521	$403,201	$752,031
Operating costs and expenses:				
Lease operating expenses	45,039	71,732	143,500	189,116
Production taxes	889	1,794	2,526	5,628
Gathering and transportation	3,572	4,115	13,189	13,396
Depreciation, depletion, amortization and accretion	97,329	128,671	326,138	380,213
Ceiling test write-down of oil and natural gas properties	441,688	—	954,850	—
General and administrative expenses	16,515	21,007	57,038	64,277
Derivative (gain) loss	(10,231)	(13,781)	(9,153)	6,790
Total costs and expenses	594,801	213,538	1,488,088	659,420
Operating income (loss)	(468,573)	20,983	(1,084,887)	92,611
Interest expense:				
Incurred	28,754	21,783	77,816	64,703
Capitalized	(2,203)	(2,191)	(6,010)	(6,422)
Other (income) expense, net	964	(197)	2,647	(205)
Income (loss) before income tax expense (benefit)	(496,088)	1,588	(1,159,340)	34,535
Income tax expense (benefit)	(18,520)	904	(166,228)	12,825
Net income (loss)	$(477,568)	$684	$(993,112)	$21,710
Basic and diluted earnings (loss) per common share	$(6.29)	$0.01	$(13.08)	$0.28
Dividends declared per common share	$—	$0.10	$—	$0.30

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY (DEFICIT)

	Common Stock Outstanding Shares	Common Stock Value	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Value	Total Shareholders’ Equity (Deficit)
	(In thousands)						
				(Unaudited)			
Balances at December 31, 2014	75,899	$ 1	$ 414,580	$ 118,894	2,869	$ (24,167)	$ 509,308
Share-based compensation	—	—	8,313	—	—	—	8,313
Other	112	—	(260)	—	—	—	(260)
Net loss	—	—	—	(993,112)	—	—	(993,112)
Balances at September 30, 2015	76,011	$ 1	$ 422,633	$ (874,218)	2,869	$ (24,167)	$ (475,751)

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2015	2014
	(In thousands) (Unaudited)	
Operating activities:		
Net income (loss)	$(993,112)	$21,710
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	326,138	380,213
Ceiling test write-down of oil and gas properties	954,850	—
Debt issuance costs write-off/amortization of debt items	2,862	537
Share-based compensation	8,313	11,398
Derivative (gain) loss	(9,153)	6,790
Cash receipts (payments) on derivative settlements	2,139	(18,543)
Deferred income taxes	(166,258)	12,825
Changes in operating assets and liabilities:		
Oil and natural gas receivables	23,287	(936)
Joint interest and other receivables	1,210	1,890
Income taxes	(289)	2,884
Prepaid expenses and other assets	16,692	21,228
Asset retirement obligation settlements	(25,515)	(42,011)
Accounts payable, accrued liabilities and other	(6,371)	21,793
Net cash provided by operating activities	134,793	419,778
Investing activities:		
Acquisition of property interest in oil and natural gas properties	—	(71,515)
Investment in oil and natural gas properties and equipment	(192,811)	(383,953)
Changes in operating assets and liabilities associated with investing activities	(65,463)	5,167
Purchases of furniture, fixtures and other	(1,185)	(2,181)
Net cash used in investing activities	(259,459)	(452,482)
Financing activities:		
Borrowings of long-term debt - revolving bank credit facility	263,000	378,000
Repayments of long-term debt - revolving bank credit facility	(445,000)	(321,000)
Issuance of 9.00% Term Loan	297,000	—
Debt issuance costs	(6,591)	—
Dividends to shareholders	—	(22,695)
Other	54	(181)
Net cash provided by financing activities	108,463	34,124
Increase (decrease) in cash and cash equivalents	(16,203)	1,420
Cash and cash equivalents, beginning of period	23,666	15,800
Cash and cash equivalents, end of period	$7,463	$17,220

See Notes to Condensed Consolidated Financial Statements.

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

1. Basis of Presentation

Operations. W&T Offshore, Inc. (with subsidiaries referred to herein as "W&T," "we," "us," "our," or the "Company") is an independent oil and natural gas producer focused primarily in the Gulf of Mexico. On October 15, 2015, a substantial amount of our interest in onshore acreage was sold, which is described in Note 12. The Company is active in the exploration, development and acquisition of oil and natural gas properties. Our interest 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").

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, 2014.

Transactions between Entities under Common Control. The prior period financial information for the three and nine months ended September 30, 2014 presented in Note 13, Supplemental Guarantor Information, has been retrospectively adjusted due to transactions between entities under common control, as required under authoritative guidance.

Reclassifications. Certain reclassifications were made to the prior period's financial statements to conform to the current presentation. In the Condensed Consolidated Statements of Cash flows, Net cash provided by operating activities was increased by $5.2 million and Net cash used in investing activities was increased by $5.2 million for the nine months ended September 30, 2014 to account for the changes in operating liabilities associated with investing activities.

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.

Ceiling Test Write-Down. Under the full cost method of accounting, we are required to periodically perform a "ceiling test," which determines a limit on the book value of our oil and natural gas properties. If the net capitalized cost of oil and natural gas properties (including capitalized asset retirement obligations ("ARO")) net of related deferred income taxes exceeds the ceiling test limit, the excess is charged to expense on a pre-tax basis and separately disclosed. Any such write downs are not recoverable or reversible in future periods. The ceiling test limit is calculated as: (i) the present value of estimated future net revenues from proved reserves, less estimated future development costs, discounted at 10%; (ii) plus the cost of unproved oil and natural gas properties not being amortized; (iii) plus the lower of cost or estimated fair value of unproved oil and natural gas properties included in the amortization base; and

(iv) less related income tax effects. Estimated future net revenues used in the ceiling test for each period are based on current prices for each product, defined by the SEC as the unweighted average of first-day-of-the-month commodity prices over the prior twelve months for that period. All prices are adjusted by field for quality, transportation fees, energy content and regional price differentials.

Due primarily to declines in the unweighted rolling 12-month average of first-day-of-the-month commodity prices for oil and natural gas, we recorded ceiling test write-downs in 2015 which are reported as a separate line in the Statements of Operations. The average price using the SEC required methodology at September 30, 2015 was $55.73 per barrel for West Texas Intermediate (“WTI”) crude oil and $3.06 per million British Thermal Unit (“MMBtu”) for Henry Hub natural gas before adjustments. For reference, the comparable prices at October 1, 2015 were $41.25 per barrel for crude oil and $2.48 per MMBtu for natural gas. Due to the decrease in the 12-month average price for both crude oil and natural gas, we recorded ceiling test write-downs of the carrying value of our oil and natural gas properties for the three and nine months ended September 30, 2015 of $441.7 million and $954.9 million, respectively. We did not record a ceiling test write-down during 2014.

Recent Events. The price we receive for our oil, natural gas liquids ("NGLs") and natural gas production directly affects our revenues, profitability, cash flows, liquidity, access to capital and future rate of growth. The prices of these commodities began falling in the second half of 2014 and were significantly lower during the nine months ended September 30, 2015 compared to the last few years.

We have taken several steps to mitigate the effects of these lower prices including: (i) significantly reducing the 2015 capital budget from the previous year; (ii) suspending our drilling and completion activities at several locations; (iii) suspending the regular quarterly common stock dividend; (iv) implementing numerous cost reduction projects to reduce our operating costs and (v) on October 15, 2015, sold our interest in the Yellow Rose field. See Note 12 for additional information.

During 2015, we have entered into three Amendments to our Fifth Amended and Restated Credit Agreement (as amended, the "Credit Agreement"), which, among other things, changed or eliminated certain financial covenants and authorized the administrative agent under the Credit Agreement to enter into an Intercreditor Agreement among the Company and various lenders. We entered into a second lien term loan (the "9.00% Term Loan") in May 2015, with a principal amount of $300.0 million, maturing on May 15, 2020. In October 2015, the borrowing base of the revolving bank credit facility under the Credit Agreement was adjusted for the sale of our interest in the Yellow Rose field and was also redetermined. The borrowing base is set at $350.0 million effective October 30, 2015. We used a portion of the proceeds of the sale of our interest in the Yellow Rose field to repay all outstanding borrowings under the revolving bank credit facility, while the remaining balance of approximately $100.0 million was added to available cash. See Notes 5 and 12 for additional information.

We have assessed our financial condition, the current capital markets and options given different scenarios of future commodity prices and believe we will have adequate liquidity to fund our operations through September 30, 2016. However, we cannot predict how an extended period of commodity prices at existing levels or a significant reduction in our borrowing base will affect our operations and liquidity levels.

Recent Accounting Developments. In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03 ("ASU 2015-03"), Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs. The guidance seeks to simplify the presentation of debt issuance costs. The amendment would require debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of liability, consistent with debt discounts or premiums. The guidance was further clarified to state that debt issuance costs related to credit facilities could be reported as an asset regardless of the balance outstanding. The recognition and measurement guidance for debt issuance costs would not be affected by the amendment. ASU 2015-03 is effective in 2016 and is to be applied on a retrospective basis. Early adoption is permitted. We do not expect the revised guidance to materially affect our balance sheets as amounts will be reclassified from long-term assets to partial offsets of long-term debt. The revised guidance will not affect the statements of operations or the statements of cash flows.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15 ("ASU 2014-15"), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (Subtopic 205-40). The guidance addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the annual period ending

after December 15, 2016, and for annual and interim periods thereafter. We do not expect the revised guidance to materially affect our evaluation as to being a going concern, or have an effect on our financial statements or related disclosures.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("ASU 2014-09"), Summary and Amendments that Create Revenue from Contracts and Customers (Topic 606). ASU 2014-09 amends and replaces current revenue recognition requirements, including most industry-specific guidance. The revised guidance establishes a five step approach to be utilized in determining when, and if, revenue should be recognized. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2017. Upon application, an entity may elect one of two methods, either restatement of prior periods presented or recording a cumulative adjustment in the initial period of application. We have not determined the effect ASU 2014-09 will have on the recognition of our revenue, if any, nor have we determined the method we will utilize upon adoption, which would be in the first quarter of 2018.

2. Acquisitions and Divestitures

2015 Divestiture

See Note 12 for information on a divestiture occurring subsequent to September 30, 2015.

2014 Acquisitions

Fairway

On September 15, 2014, the Parent Company entered into an asset purchase agreement with a third party to increase its ownership interest from 64.3% to 100% in the Mobile Bay blocks 113 and 132 (the "Fairway Field") and the associated Yellowhammer gas processing plant (collectively, "Fairway"). The Fairway Field is located in the state waters of Alabama and the Yellowhammer gas processing plant is located in the state of Alabama. The effective date of the transaction was July 1, 2014. The transaction included customary adjustments for the effective date, certain closing adjustments and our assumption of the related ARO. A net purchase price increase of $1.3 million for customary final closing adjustments was recorded in 2015. The acquisition was funded from borrowings under our revolving bank credit facility and cash on hand.

The following table presents the purchase price allocation, including adjustments, for the increased ownership interest in Fairway (in thousands):

Cash consideration:	
Evaluated properties including equipment	$18,693
Non-cash consideration:	
Asset retirement obligations - non-current	6,124
Total consideration	$24,817

The acquisition was recorded at fair value, which was determined by applying the market and income approaches using Level 3 inputs. The Level 3 inputs were: (i) analysis of comparable transactions obtained from various third-parties, (ii) estimates of ultimate recoveries of reserves and (iii) estimates of discounted cash flows based on estimated reserve quantities, reserve categories, timing of production, costs to produce and develop reserves, future prices, ARO and discount rates. The estimates and assumptions were determined by management and third-parties. The fair value is based on subjective estimates and assumptions, which are inherently imprecise, and the actual realized values could vary significantly from these estimates. No goodwill was recorded in connection with this acquisition of an additional working interest in Fairway.

Woodside Properties

On May 20, 2014, Energy VI entered into a purchase and sale agreement to acquire certain oil and natural gas property interests from Woodside Energy (USA) Inc. ("Woodside"). The properties acquired from Woodside (the "Woodside Properties") consisted of a 20% non-operated working interest in the producing Neptune field (deepwater Atwater Valley blocks 574, 575 and 618), along with an interest in the Neptune tension-leg platform, associated production facilities and various interests in 24 other deepwater lease blocks. All of the Woodside Properties are

located in the Gulf of Mexico. The effective date of the transaction was November 1, 2013. The transaction included customary adjustments for the effective date, certain closing adjustments and our assumption of the related ARO. A net purchase price increase of $0.2 million for customary final closing adjustments was recorded in 2015. The acquisition was funded from borrowings under our revolving bank credit facility and cash on hand.

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

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

Cash consideration:	
Evaluated properties including equipment	$52,347
Unevaluated properties	2,660
Sub-total cash consideration	55,007
Non-cash consideration:	
Asset retirement obligations - current	782
Asset retirement obligations - non-current	10,543
Sub-total non-cash consideration	11,325
Total consideration	$66,332

The acquisition was recorded at fair value, which was determined by applying the market and income approaches using Level 3 inputs. The Level 3 inputs were: (i) analysis of comparable transactions obtained from various third-parties, (ii) estimates of ultimate recoveries of reserves and (iii) estimates of discounted cash flows based on estimated reserve quantities, reserve categories, timing of production, costs to produce and develop reserves, future prices, ARO and discount rates. The estimates and assumptions were determined by management and third-parties. The fair value is based on subjective estimates and assumptions, which are inherently imprecise, and the actual realized values could vary significantly from these estimates. No goodwill was recorded in connection with the Woodside Properties acquisition.

2014 Acquisitions — Revenues, Net Income and Pro Forma Financial Information

The increase in working interest ownership for Fairway was not included in our consolidated results until the property transfer date, which occurred in September 2014 and the incremental revenue and operating expenses were immaterial for the three and nine month periods ended September 30, 2015. Unaudited pro forma information showing the effect of the acquisition of an additional Fairway working interest is not presented as the pro forma information is not materially different from the reported results presented for the three and nine month periods ended September 30, 2014.

The Woodside Properties were not included in our consolidated results until the property transfer date, which occurred in May 2014. For the three months ended September 30, 2015, the Woodside Properties accounted for $5.8 million of revenues, $2.4 million of direct operating expenses, $3.4 million of depreciation, depletion, amortization and accretion (“DD&A”) and no income tax expense, resulting in less than $0.1 million of net income. For the nine months ended September 30, 2015, the Woodside Properties accounted for $19.2 million of revenues, $7.5 million of direct operating expenses, $11.4 million of DD&A and $0.1 million of income tax expense, resulting in $0.2 million of net income. The net income attributable to the Woodside Properties does not reflect certain expenses, such as general and administrative expenses (“G&A”) and interest expense; therefore, this information is not intended to report results as if these operations were managed on a stand-alone basis. In addition, the Woodside Properties are not recorded in a separate entity for tax purposes; therefore, income tax was estimated using the federal statutory tax rate.

In accordance with the applicable accounting guidance, we have included herein certain unaudited pro forma financial information giving pro forma effect to the acquisition of the Woodside Properties computed as if the acquisition had been completed on January 1, 2013. The financial information was derived from W&T's audited historical consolidated financial statements for annual periods, W&T's unaudited historical condensed consolidated financial statements for interim periods, and the Woodside Properties' unaudited historical financial statements for the annual and interim periods.

The pro forma adjustments were based on estimates by management and information believed to be directly related to the purchase of the Woodside Properties. The pro forma financial information is not necessarily indicative of the results of operations had the purchase occurred on January 1, 2013. Had we owned the Woodside Properties during the periods indicated, the results may have been substantially different. For example, we may have operated the assets differently than Woodside; the realized sales prices for oil, NGLs and natural gas may have been different; and the costs of operating the Woodside Properties may have been different.

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

The following table presents a summary of our pro forma financial information giving pro forma effect to the Woodside Properties acquisition (in thousands, except earnings per share):

	(unaudited) Nine Months Ended September 30, 2014
Revenue	$ 774,918
Net income	27,803
Basic and diluted earnings per common share	0.36

For the pro forma financial information, certain information was derived from our financial records, Woodside's financial records and certain information was estimated. Pro forma financial information for the three month period ended September 30, 2014 is not presented as there were no material differences from reported results.

The following table presents incremental items included in the pro forma information reported above for the Woodside Properties (in thousands):

	(unaudited) Nine Months Ended September 30, 2014 [a]
Revenues [b]	$ 22,887
Direct operating expenses [b]	4,417
DD&A [c]	8,385
G&A [d]	400
Interest expense [e]	330
Capitalized interest [f]	(19)
Income tax expense [g]	3,281

The sources of information and significant assumptions are described below:

(a) The adjustments for the period presented are from the beginning of the period to May 20, 2014.
(b) Revenues and direct operating expenses for the Woodside Properties were derived from the historical financial records of Woodside.

(c) DD&A was estimated using the full-cost method and determined as the incremental DD&A expense due to adding the Woodside Properties' costs, reserves and production into our full cost pool in order to compute such amounts. The purchase price allocated to unevaluated properties for oil and natural gas interests was excluded from the DD&A expense estimation. ARO was estimated by W&T management.

(d) Consists of estimated incremental insurance costs related to the Woodside Properties.

(e) The Woodside Properties acquisition was assumed to be funded entirely with borrowed funds. Interest expense was computed using assumed borrowings of $55.0 million, which equates to the cash component of the acquisition purchase price, and an interest rate of 1.8%, which equates to the rates applied to incremental borrowings on the revolving bank credit facility.

(f) The change to capitalized interest was computed for the addition to the pool of unevaluated properties and the capitalization interest rate was adjusted for the assumed borrowings. The negative amount represents a decrease to net expenses.

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

The pro forma adjustments do not include adjustments related to any other acquisitions or divestitures. As the acquisition occurred in the second quarter of 2014, pro forma financial information for the three months ended September 30, 2014 is not presented as there would be no differences from reported results.

3. 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 in accordance with applicable laws.

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

Balance, December 31, 2014	$390,568
Liabilities settled	(25,515)
Accretion of discount	15,883
Disposition of properties	(965)
Liabilities incurred	7,615
Revisions of estimated liabilities [1]	12,040
Balance, September 30, 2015	399,626
Less current portion	84,588
Long-term	$315,038

(1) Revisions were primarily attributable to increases in scope of work, additional time to complete the work and from non-operated properties.

4. 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 oil and natural gas. All of the derivative counterparties are also lenders or affiliates of lenders participating in our revolving bank credit facility. We are exposed to credit loss in the event of nonperformance by the derivative counterparties; however, we 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.

For information about fair value measurements, refer to Note 6.

Commodity Derivatives

During 2015, we entered into crude oil and natural gas derivative contracts for a portion of our anticipated future production. Some of the commodity derivative contracts are known as “three-way collars” consisting of a purchased put option, a sold call option and a purchased call option, each at varying strike prices. The strike prices of the contracts were set so that the contracts were premium neutral (“costless”), which means no net premium was paid to or received from a counterparty. The three-way collar contracts are structured to provide price risk protection if the commodity price falls below the strike price of the put option and provides us the opportunity to benefit if the commodity price rises above the strike price of the purchased call option. These contracts may have the effect of reducing some of our incremental income from favorable price movements if the commodity price is above certain levels, but have unlimited upside potential if prices rise above those levels. In addition, we entered into oil derivative contracts known as “two-way”, “costless” collars, which consist of a purchased put option and a sold call option. These two-way collars provide price risk protection if crude oil prices fall below certain levels, but may limit incremental income from favorable price movements above certain limits. The oil contracts are based on WTI crude oil prices as quoted off the New York Mercantile Exchange (“NYMEX”). The natural gas contracts are based on Henry Hub natural gas prices as quoted off the NYMEX.

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As of December 31, 2014, we did not have any open derivative contracts. During 2014, we used crude oil swap contracts and have used various derivative instruments in prior years to manage our exposure to commodity price risk from sales of our oil and natural gas. While these contracts were intended to reduce the effects of price volatility, they may have limited incremental income from favorable price movements.

As of September 30, 2015, our open commodity derivative contracts were as follows:

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

Termination Period	Notional Quantity (Bbls/day) [1]	Notional Quantity (Bbls) [1]	Weighted Average Contract Price Put Option (Bought)	Call Option (Sold)	Call Option (Bought)
2015: 4th Quarter	6,000	552,000	$50.00	$60.00	$ 62.30

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

Termination Period	Notional Quantity (Bbls/day) [1]	Notional Quantity (Bbls) [1]	Weighted Average Contract Price Put Option (Bought)	Call Option (Sold)
2016: 1st Quarter	5,000	455,000	$40.00	$81.47
2nd Quarter	5,000	455,000	40.00	81.47
3rd Quarter	5,000	460,000	40.00	81.47
4th Quarter	5,000	460,000	40.00	81.47
		1,830,000	40.00	81.47

Natural Gas: Three-way collars, Priced off Henry Hub (NYMEX) [1]

Termination Period	Notional Quantity (MMBTUs/day) [1]	Notional Quantity (MMBTUs) [1]	Weighted Average Contract Price Put Option (Bought)	Call Option (Sold)	Call Option (Bought)
2015: 4th Quarter [2]	30,000	1,830,000	$2.25	$ 3.25	$ 3.51

2016:	1st Quarter	40,000	3,640,000	2.25	3.50	3.77
	2nd Quarter	40,000	3,640,000	2.25	3.50	3.77
	3rd Quarter	40,000	3,680,000	2.25	3.50	3.77
	4th Quarter	40,000	3,680,000	2.25	3.50	3.77
			16,470,000	2.25	3.47	3.74

(1) Volume Measurements: Bbls – barrelsMMBTUs – million British Thermal Units.
(2) The natural gas derivative contracts are priced and closed in the last week prior to the related production month. Natural gas derivative contracts related to October 2015 production were priced and closed in September 2015 and are not included in the above table as these were not open derivative contracts as of September 30, 2015.

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

	September 30, 2015	December 31, 2014
Prepaid and other assets (current)	$ 5,970	$ —
Other assets (noncurrent)	1,044	—

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,	
	2015	2014	2015	2014
Derivative (gain) loss	$(10,231)	$(13,781)	$(9,153)	$6,790

Cash receipts (payments), net, on commodity derivative contract settlements 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,	
	2015	2014
Cash receipts (payments) on derivative settlements, net	$2,139	$(18,543)

Offsetting Commodity Derivatives

During 2015, 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 revolving bank credit

facility, that event may also trigger an acceleration of settlement 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. For the open derivative contracts as of September 30, 2015, there would have been no difference if the contracts were presented on net basis. There were no open derivative contracts as of December 31, 2014.

5. Long-Term Debt

Our long-term debt was as follows (in thousands):

	September 30, 2015	December 31, 2014
8.50% Senior Notes	$900,000	$900,000
Debt premiums, net of amortization	11,161	13,057
9.00% Term Loan	300,000	—
Debt discounts, net of amortization	(2,813)	—
Revolving bank credit facility	265,000	447,000
Total long-term debt	1,473,348	1,360,057
Current maturities of long-term debt	—	—
Long term debt, less current maturities	$1,473,348	$1,360,057

At September 30, 2015 and December 31, 2014, our outstanding senior notes, which bear an annual interest rate of 8.50% and mature on June 15, 2019 (the "8.50% Senior Notes"), were classified as long-term at their carrying value. Interest on the 8.50% Senior Notes is payable semi-annually in arrears on June 15 and December 15. The estimated annual effective interest rate on the 8.50% Senior Notes is 8.4%, which includes amortization of debt issuance costs and premiums. The debt premiums, net of amortization, are related to the 8.50% Senior Notes. We are subject to various financial and other covenants under the indenture governing the 8.50% Senior Notes, and we were in compliance with those covenants as of September 30, 2015.

In May 2015, we entered into the 9.00% Term Loan, which has a principal of $300.0 million, bears an annual interest rate of 9.00%, was issued at a 1% discount to par and matures on May 15, 2020. The 9.00% Term Loan is secured by a second priority lien covering our oil and gas properties to the extent such properties secure first priority liens granted to secure indebtedness under our Credit Agreement. Interest on the 9.00% Term Loan is payable in arrears semi-annually on May 15 and November 15. The estimated annual effective interest rate on the 9.00% Term Loan is 9.7%, which includes amortization of debt issuance costs and discounts. The net proceeds were used to repay a portion of the outstanding borrowings incurred under our revolving bank credit facility governed by the Credit Agreement. An entity controlled by the Company's Chairman and Chief Executive Officer participated in the 9.00% Term Loan for a $5.0 million principal commitment on the same terms as the other lenders. We are subject to various covenants under the terms governing the 9.00% Term Loan including, without limitation, covenants that limit our ability to incur other debt, pay dividends or distributions on our equity, merge or consolidate with other entities and make certain investments in other entities. We were in compliance with those covenants as of September 30, 2015.

Our revolving bank credit facility governed by the Credit Agreement matures on November 8, 2018. Borrowings under our revolving bank credit facility are secured by our oil and natural gas properties. Availability under such facility is subject to a semi-annual redetermination of our borrowing base that occurs in the spring and fall of each

year and is calculated by our lenders based on their evaluation of our proved reserves and their own internal criteria.

At both September 30, 2015 and December 31, 2014, we had $0.9 million of letters of credit outstanding under the revolving bank credit facility. The estimated annual effective interest rate was 3.3% for the nine months ended September 30, 2015 for average daily borrowings under the revolving bank credit facility. The estimated annual effective interest rate includes amortization of debt issuance costs and excludes commitment fees and other costs. As of September 30, 2015, our borrowing base was $500.0 million and our borrowing availability was $234.1 million. See Note 12 for the results of the semi-annual redetermination and an amendment to the Credit Agreement subsequent to September 30, 2015.

Through September 30, 2015, we have entered into two amendments to the Credit Agreement. Following is a summary of the primary terms of the amendments:

- The applicable margin applied to borrowings under the Credit Agreement was increased by 50 basis points (0.5%) on an annual basis. The margins on London Interbank Offered Rate ("LIBOR") based borrowings range from 2.25% to 3.25% and the margins on alternate base rate borrowings range from 1.25% to 2.25%.

- The Amendments permit us to incur additional unsecured indebtedness, or incur additional indebtedness which is subordinate in security compared to the indebtedness under the Credit Agreement, provided that, (A) no event of default has occurred or would result from such incurrence, (B) the Company is in compliance with its financial ratios after giving pro forma effect to the incurrence of the additional indebtedness, (C) such additional indebtedness matures at least six months after the maturity date of the Credit Agreement, and (D) such additional indebtedness is not subject to covenants and events of default that are, taken as a whole, materially more onerous than those provided for in the Credit Agreement.
- Upon the incurrence of additional unsecured indebtedness, or the incurrence of additional indebtedness which is subordinate in security compared to the indebtedness under the Credit Agreement, the borrowing base will be reduced by $0.33 for each dollar of additional indebtedness until the borrowing base is redetermined. After giving effect to the issuance of the 9.00% Term Loan and the resulting reduction in the borrowing base, the borrowing base was adjusted to $500.0 million.
- We are restricted on making distributions or repurchasing the existing 8.50% Senior Notes, the 9.00% Term Loan or other permitted indebtedness (i) until June 30, 2016, (ii) if an event of default is continuing or would result from such distribution or (iii) if a borrowing base deficiency is continuing or would result therefrom; provided that the restriction in clause (i) of this sentence does not apply to (A) scheduled payments of interest, principal or redemptions on the Company's existing 8.50% Senior Notes, the 9.00% Term Loan or other permitted additional debt and (B) the redemption or repurchase by the Company of its outstanding indebtedness in an aggregate principal amount equal to the aggregate principal amount of any new indebtedness, provided that any such new notes are not subject to covenants and events of default that are, taken as a whole, materially more restrictive on the Company.
- The financial covenants, with definitions of capitalized terms contained in the Credit Agreement, were set as follows:

a) The maximum Leverage Ratio was suspended for the first quarter of 2016; then is limited to 5.00:1.00 for the second quarter of 2016; 4.50:1.00 for the third quarter of 2016; and 4.00:1.00 thereafter.
b) The minimum Current Ratio is 0.75:1.00 effective for the first quarter of 2015 through the fourth quarter of 2015; and 1.00:1.00 thereafter.
c) The maximum First Lien Leverage Ratio is 2.50:1.00 effective for the first quarter of 2015 and thereafter.
d) The maximum Secured Debt Leverage Ratio is 3.50:1.00 effective for the first quarter of 2015 and thereafter.
e) The minimum Interest Coverage Ratio is 2.20:1.00 effective for the first quarter of 2015 and thereafter.

- The mortgaged collateral requirement was increased from 80% to 90% of the total value of both the (i) total oil and gas reserves and (ii) the proved developed producing reserves.
- We are required to maintain minimum derivative positions of 25% of estimated oil and natural gas production for the second half of 2015 and 35% of estimated oil and natural gas production for 2016.
- The amendment authorized the Administrative Agent under the Credit Agreement governing our revolving credit facility to enter into an Intercreditor Agreement with the lenders under the 9.00% Term Loan, which established the relationship and the priority of the liens securing the revolving bank credit facility and the 9.00% Term Loan.

The foregoing description of the Credit Agreement does not purport to be complete and is qualified in its entirety by reference to the agreement.

During the second quarter of 2015, the borrowing base on the revolving bank credit facility was reduced after the semi-annual redetermination and further reduced in conjunction with the issuance of the 9.00% Term Loan pursuant to the terms of the Credit Agreement. The reductions in the borrowing base resulted in proportional reductions in the unamortized debt issuance costs of $2.0 million related to the Credit Agreement, which is recorded within the line Other (income) and expense, net on the Statements of Operations.

Under the Credit Agreement, we are subject to various financial covenants, as listed above, which are calculated as of the last day of each fiscal quarter. We were in compliance with all applicable covenants of the Credit Agreement as of September 30, 2015.

See Note 12 for information on the third amendment and changes to the borrowing base subsequent to September 30, 2015.

For information about fair value measurements for our 8.50% Senior Notes, 9.00% Term Loan and revolving bank credit facility, refer to Note 6.

6. 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 inputs used for the fair value measurement of our derivative financial instruments are the exercise price, the expiration date, the settlement date, notional quantities, the implied volatility, the discount curve with spreads, credit risk and published commodity futures prices. The fair values of our 8.50% Senior Notes and 9.00% Term Loan were based on quoted prices, although the market is not an active market; therefore, the fair value is classified within Level 2. The carrying amount of debt under our revolving bank credit facility approximates fair value because the interest rates are variable and reflective of market rates.

The following table presents the fair value of our derivatives and long-term debt, as reported in the Condensed Consolidated Balance Sheets (in thousands):

		September 30, 2015		December 31, 2014
	Hierarchy	Assets	Liabilities	Liabilities
Derivatives	Level 2	$7,014	$—	$—
8.50% Senior Notes [1]	Level 2	—	400,500	594,000
9.00% Term Loan [1]	Level 2	—	259,500	—
Revolving bank credit facility [1]	Level 2	—	265,000	447,000

(1) The long-term debt items are reported on the Condensed Consolidated Balance Sheets at their carrying value as described in Note 5.

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

In 2010, the W&T Offshore, Inc. Amended and Restated Incentive Compensation Plan (the "Plan") was approved by our shareholders, and amendments to the Plan were approved by our shareholders in May 2013. As allowed by the Plan, during 2014 and in 2013, the Company granted restricted stock units ("RSUs") to certain of its employees. During the nine months ended September 30, 2015, no RSUs were granted. RSUs are a long-term compensation component of the Plan, which are granted to only certain employees, and are subject to adjustments at the end of the applicable performance period based on the achievement of certain predetermined criteria. In addition to share-based compensation, the Company may grant to its employees cash-based incentive awards, which are a short-term component of the Plan and are based on the Company and the employee achieving certain pre-defined performance criteria.

During 2014, RSUs granted were subject to adjustments based on achievement of a combination of performance criteria, which was comprised of: (i) net income before income tax expense, net interest expense, depreciation, depletion, amortization, accretion and certain other items ("Adjusted EBITDA") for 2014 and (ii) Adjusted EBITDA as a percent of total revenues ("Adjusted EBITDA Margin") for 2014. For 2014, the Company was above target for Adjusted EBITDA and was slightly below target for Adjusted EBITDA Margin.

During 2013, RSUs granted were also subject to adjustments based on achievement of a combination of performance criteria, which was comprised of: (i) Adjusted EBITDA for 2013; (ii) Adjusted EBITDA Margin for 2013; and (iii) the Company's total shareholder return ("TSR") ranking against peer companies' TSR for 2013, 2014 and January 1, 2015 to October 31, 2015. TSR is determined based upon the change in the entity's stock price plus dividends for the applicable performance period. For 2013, the Company exceeded the target for Adjusted EBITDA and was approximately at target for 2013 Adjusted EBITDA Margin. For 2014 and 2013, the Company was below target for the TSR rankings for each period.

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All RSUs granted to date are subject to employment-based criteria and vesting occurs in December of the second year after the grant. For example, the RSUs granted during 2013 will vest in December 2015 to eligible employees assuming the requisite performance goals and employment-based criteria are also satisfied.

The 2014 annual incentive award for the Chief Executive Officer ("CEO") was settled in shares of common stock based on a pre-determined price of $14.66 per share, pursuant to the terms of his award. In March 2015, after reductions for employee payroll and withholding taxes, the net amount of the CEO's 2014 award resulted in 37,316 shares of common stock issued to the CEO. The 2013 annual incentive award for the CEO was settled in shares of common stock based at the price of $14.84, which was the Company's closing price the day prior to the settlement date. In March 2014, after reductions for employee payroll and withholding taxes, the net amount of the CEO's 2013 award resulted in 42,547 shares of common stock issued to the CEO. The CEO awards for both years were 100% performance based and were subject to pre-defined performance measures and employment-based criteria, which were the same pre-defined performance measures and employment-based criteria established for the other eligible Company employees, and were subject to approval of the Compensation Committee.

Under 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 2015, 2014 and 2013. The Restricted Shares are subject to service conditions and vesting occurs at the end of specified service periods.

At September 30, 2015, there were 4,735,483 shares of common stock available for issuance in satisfaction of awards under the Plan and 444,024 shares of common stock available for issuance in satisfaction of awards under the Director Compensation Plan. The shares available for both plans are reduced when Restricted Shares or shares of common stock are granted. RSUs reduce the shares available in the Plan when the RSUs are settled in shares of common stock, net of withholding tax. Although the Company has the option to settle RSUs in stock or cash at vesting, only common stock has been used to settle vested RSUs to date.

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

Awards Based on Restricted Stock to Non-Employee Directors. As of September 30, 2015, all of the unvested shares of Restricted Shares outstanding were issued to the non-employee directors. Restricted Shares are subject to forfeiture until vested and cannot be sold, transferred or disposed of during the restricted period. The holders of Restricted Shares generally have the same rights as a shareholder of the Company with respect to such Restricted Shares, including the right to vote and receive dividends or other distributions paid with respect to the Restricted Shares. The fair value of Restricted Shares was estimated by using the Company's closing price on the grant date.

A summary of activity in 2015 related to Restricted Shares awarded to non-employee directors is as follows:

	Restricted Shares	
		Weighted Average

	Shares	Grant Date Fair Value Per Share
Nonvested, December 31, 2014	43,210	$ 16.20
Granted	56,540	6.19
Vested	(21,520)	16.26
Nonvested, September 30, 2015	78,230	8.95

Subject to the satisfaction of service conditions, the outstanding Restricted Shares issued to the non-employee directors as of September 30, 2015 are expected to vest as follows:

	Restricted Shares
2016	34,265
2017	25,115
2018	18,850
Total	78,230

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The grant date fair values of Restricted Shares awarded during the nine months ended September 30, 2015 and the nine months ended September 30, 2014 was $0.3 million for both periods. The fair values of Restricted Shares that vested during the nine months ended September 30, 2015 and the nine months ended September 30, 2014 were $0.1 million and $0.3 million, respectively.

Awards Based on Restricted Stock Units. As of September 30, 2015, the Company had outstanding RSUs issued to certain employees. As described above, the RSUs granted during 2014 and 2013 were 100% performance based and were subject to pre-defined performance measures and employment-based criteria. A portion of the RSUs granted during 2013 remain subject to the performance measure of TSR for the defined period in 2015; therefore, the number of RSUs may be adjusted upon determination of the performance. The RSUs subject to performance measurement which has not yet been determined are disclosed in the table below for RSUs potentially eligible to vest.

The fair value for the RSUs granted during 2014 was determined using the Company's closing price on the grant date as the performance measures were all Company-specific performance measures comprised of Adjusted EBITDA and Adjusted EBITDA Margin. The fair value for the 2013 RSUs was determined separately for the components related to the TSR targets and the Company specific performance measures (Adjusted EBITDA and Adjusted EBITDA Margin). The fair value for the 2013 RSUs component related to TSR targets was determined by using a Monte Carlo simulation probabilistic model. The inputs used in the probabilistic model for the Company and the peer companies were: average closing stock prices during January 2013; risk-free interest rates using the LIBOR ranging from 0.27% to 0.91% over the service period; expected volatilities ranging from 30% to 63%; expected dividend yields ranging from 0.0% to 3.1%; and correlation factors ranging from a negative 84% to a positive 95%. The expected volatilities, expected dividends and correlation factors were developed using historical data. The fair value of all other 2013 RSUs components was determined using the Company's closing price on the grant date.

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

A summary of activity in 2015 related to RSUs is as follows:

	Restricted Stock Units	
	Units	Weighted Average Grant Date Fair Value Per Unit
Nonvested, December 31, 2014	1,977,335	$ 15.29
Vested	(23,500)	14.68
Forfeited	(114,900)	15.18
Nonvested, September 30, 2015	1,838,935	15.30

All of the outstanding RSUs are subject to the satisfaction of service conditions and a portion of the outstanding RSUs are also subject to pre-defined performance measurements. The RSUs outstanding as of September 30, 2015 potentially eligible to vest are listed in the table below:

	Restricted Stock Units
2015 - subject to service requirements	689,075
2015 - subject to service and other requirements [1]	