W&T OFFSHORE INC
Form 10-Q
August 02, 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 June 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 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 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 (Do not check if a smaller reporting company)	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 July 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)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$129,440	$99,058
Receivables:		
Oil and natural gas sales	52,073	45,443
Joint interest	19,366	19,754
Income taxes	65,240	13,006
Total receivables	136,679	78,203
Prepaid expenses and other assets (Note 1)	20,470	13,419
Total current assets	286,589	190,680
Oil and natural gas properties and other, net - at cost: (Note 1)	576,073	579,016
Restricted deposits for asset retirement obligations	26,072	25,394
Income taxes receivable	—	52,097
Other assets (Note 1)	69,418	60,393
Total assets	$958,152	$907,580
Liabilities and Shareholders' Deficit		
Current liabilities:		
Accounts payable	$46,464	$83,665
Undistributed oil and natural gas proceeds	22,649	20,129
Asset retirement obligations	27,923	23,613
Current maturities of long-term debt: (Note 2)		
Principal	189,829	—
Carrying value adjustments	34,917	22,925
Current maturities of long-term debt - carrying value	224,746	22,925
Accrued liabilities (Note 1)	20,505	17,930
Total current liabilities	342,287	168,262
Long-term debt: (Note 2)		
Principal	713,365	889,790
Carrying value adjustments	47,605	79,337
Long term debt, less current portion - carrying value	760,970	969,127
Asset retirement obligations, less current portion	289,297	276,833
Other liabilities (Note 1)	73,007	66,866
Commitments and contingencies (Note 11)	—	—

Shareholders' deficit:		
Preferred stock, $0.00001 par value; 20,000,000 shares authorized; 0 issued at June 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 June 30, 2018 and 141,960,462 issued and 139,091,289 outstanding December 31, 2017	1	1
Additional paid-in capital	548,196	545,820
Retained earnings (deficit)	(1,031,439)	(1,095,162)
Treasury stock, at cost; 2,869,173 shares at June 30, 2018 and December 31, 2017	(24,167)	(24,167)
Total shareholders' deficit	(507,409)	(573,508)
Total liabilities and shareholders' deficit	$958,152	$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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands except per share data) (Unaudited)			
Revenues:				
Oil	$116,618	$85,622	$213,924	$170,593
NGLs	8,734	7,054	18,394	15,796
Natural gas	22,977	29,258	48,844	59,016
Other	1,283	1,389	2,663	2,311
Total revenues	149,612	123,323	283,825	247,716
Operating costs and expenses:				
Lease operating expenses	35,582	31,519	72,425	71,683
Production taxes	439	449	894	964
Gathering and transportation	4,928	5,318	9,985	11,527
Depreciation, depletion, amortization and accretion	39,757	40,364	77,838	80,354
General and administrative expenses	14,220	16,474	29,258	29,748
Derivative (gain) loss	6,219	(3,689)	6,219	(7,644)
Total costs and expenses	101,145	90,435	196,619	186,632
Operating income	48,467	32,888	87,206	61,084
Interest expense	12,147	11,436	23,470	22,730
Gain on exchange of debt	—	8,056	—	7,811
Other (income) expense, net	125	5,168	(208)	5,114
Income before income tax expense (benefit)	36,195	24,340	63,944	41,051
Income tax expense (benefit)	112	(8,975)	221	(16,563)
Net income	$36,083	$33,315	$63,723	$57,614
Basic and diluted earnings per common share	$0.25	$0.23	$0.44	$0.40

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT

	Common Stock		Additional	Retained			Total
	Outstanding		Paid-In	Earnings	Treasury Stock		Shareholders'
	Shares	Value	Capital	(Deficit)	Shares	Value	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	—	—	2,434	—	—	—	2,434
Stock Issued	63	—	—	—	—	—	—
RSUs surrendered for payroll taxes	—	—	(58)	—	—	—	(58)
Net income	—	—	—	63,723	—	—	63,723
Balances at June 30, 2018	139,154	$ 1	$ 548,196	$ (1,031,439)	2,869	$ (24,167)	$ (507,409)

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2018	2017
	(In thousands) (Unaudited)	
Operating activities:		
Net income	$63,723	$57,614
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	77,838	80,354
Gain on exchange of debt	—	(7,811)
Amortization of debt items and other items	1,126	836
Share-based compensation	2,434	3,466
Derivative (gain) loss	6,219	(7,644)
Cash receipts (payments) on derivative settlements, net	(1,149)	2,208
Deferred income taxes	221	212
Changes in operating assets and liabilities:		
Oil and natural gas receivables	(6,630)	3,675
Joint interest receivables	251	1,965
Insurance reimbursements	—	30,100
Income taxes	(138)	(16,960)
Prepaid expenses and other assets	(14,323)	(3,575)
Escrow deposit - Apache lawsuit	—	(49,500)
Asset retirement obligation settlements	(12,124)	(36,021)
Accounts payable, accrued liabilities and other	(2,256)	6,666
Net cash provided by operating activities	115,192	65,585
Investing activities:		
Investment in oil and natural gas properties and equipment	(31,803)	(43,800)
Changes in operating assets and liabilities associated with investing activities	(29,330)	(827)
Acquisition of property interest	(16,617)	—
Purchases of furniture, fixtures and other	—	(853)
Net cash used in investing activities	(77,750)	(45,480)
Financing activities:		
Payment of interest on 1.5 Lien Term Loan	(4,114)	(4,113)
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	(7,060)	(18,021)
Increase in cash and cash equivalents	30,382	2,084
Cash and cash equivalents, beginning of period	99,058	70,236
Cash and cash equivalents, end of period	$129,440	$72,320

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, as described in more detail below under the subheading "-Recent Events" in this Note and 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 six months ended June 30, 2018 compared to the average realized prices in the six months ended June 30, 2017.

Our Fifth Amended and Restated Credit Agreement (as amended, the "Credit Agreement") provides our revolver bank credit facility and matures on November 8, 2018. As of June 30, 2018, we had $9.7 million of letters of credit outstanding and no amounts borrowed on our revolving bank credit facility. Our 8.500% Senior Notes (the "Unsecured Senior Notes") mature on June 15, 2019. If the Unsecured Senior Notes have not been extended, refunded, defeased, discharged, replaced or refinanced by February 28, 2019, then the 11.00% 1.5 Lien Term Loan, due November 15, 2019 (the "1.5 Lien Term Loan") and the 8.50%/10.00% Third Lien Payment-In-Kind ("PIK") Toggle Notes, due June 15, 2021, (the "Third Lien PIK Toggle Notes") will both accelerate their maturity to February 28, 2019. During the remainder of 2018, we plan to address the issues of the potential maturity acceleration of these two debt instruments and to extend or replace the revolving bank credit facility. We expect to build sufficient cash balances in 2018 to be able to redeem, repurchase or refinance the Unsecured Senior Notes. Certain amendments under the Credit Agreement and the 1.5 Lien Term Loan will likely be required in the event we redeem or repurchase the Unsecured Senior Notes, which we anticipate would be granted if requested. If we are in a position to repay or refinance the 1.5 Lien Term Loan, then we would expect to extend the maturity of our revolving bank credit facility. There can be no

assurance that lenders will extend our revolving bank credit facility maturity, but under current market conditions and based on the outlook of our cash position in 2018 and further, we believe our lenders or replacement lenders will be amenable to participating in a refinancing or other corporate financing transaction.

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

In addition to the assessment of potential maturity acceleration of certain debt instruments discussed above, we have assessed our obligations, our financial condition, the current capital markets and options given different scenarios of commodity prices. We believe we will have adequate available liquidity to fund our operations through August 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. 2016-18, ("ASU 2016-18"), Statement of Cash Flows (Topic 230) – Restricted Cash became effective for us as of January 1, 2018. As we did not have any amounts of restricted cash in the six months ended June 30, 2018 and 2017, ASU 2016-18 did not affect the Condensed Consolidated Statement of Cash Flows.

Accounting Standards Update No. 2017-01, ("ASU 2017-01"), Business Combinations (Topic 805) – Clarifying the Definition of a Business 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, ("ASU 2014-09") Revenue from Customers (Topic 606), 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.

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):

	June 30, 2018	December 31, 2017
Prepaid/accrued insurance	$4,526	$ 2,401
Surety bond unamortized premiums	3,305	2,676
Prepaid deposits related to royalties	8,391	6,456

Advances for capital expenditures	1,098	—
Derivative contract premiums	1,582	—
Other	1,568	1,886
Prepaid expenses and other assets	$ 20,470	$ 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):

	June 30, 2018	December 31, 2017
Oil and natural gas properties and equipment	$8,167,664	$8,102,044
Furniture, fixtures and other	21,831	21,831
Total property and equipment	8,189,495	8,123,875
Less accumulated depreciation, depletion and amortization	7,613,422	7,544,859
Oil and natural gas properties and other, net	$576,073	$579,016

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

	June 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 the Credit Agreement	4,702	—
Unamortized brokerage fee for Monza	2,182	—
Proportional consolidation of Monza's other assets (Note 4)	2,301	—
Other	1,160	1,457
Total other assets	$69,418	$ 60,393

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

	June 30, 2018	December 31, 2017
Accrued interest	$4,199	$ 4,200
Accrued salaries/payroll taxes/benefits	2,996	2,454
Incentive compensation plans	3,987	7,366
Litigation accruals	3,604	3,480
Derivative contracts	5,281	—
Other	438	430
Total accrued liabilities	$20,505	$ 17,930

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

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

	June 30, 2018	December 31, 2017
Apache lawsuit	$49,500	$ 49,500
Uncertain tax positions including interest/penalties	11,236	11,015
Dispute related to royalty deductions	4,687	—
Dispute related to royalty-in-kind	2,083	914
Other	5,501	5,437
Total other liabilities (long-term)	$73,007	$ 66,866

Recent Accounting Developments. In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (“ASU 2016-02”), Leases (Subtopic 842). 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, (“ASU 2016-13”), Financial Instruments – Credit Losses (Subtopic 326). 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, (“ASU 2017-12”), Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities. 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):

	June 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	—	11,482	11,482	—	15,596	15,596
Subtotal	75,000	11,482	86,482	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	—	(3,258)	(3,258)	—	(3,956)	(3,956)
Total long-term debt	903,194	82,522	985,716	889,790	102,262	992,052
Current maturities of long-term debt [2]	189,829	34,917	224,746	—	22,925	22,925
Long term debt, less current	$713,365	$ 47,605	$760,970	$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.

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

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 PIK Toggle Notes, due May 15, 2020, (the "Second Lien PIK Toggle Notes"); the Third Lien PIK Toggle Notes and 1.5 Lien Term Loan (the "New Debt") are measured using all future undiscounted payments (principal and interest); therefore, no interest expense has been recorded for the New Debt in the Condensed Consolidated Statements of Operations for the periods presented. Additionally, no interest expense related to the New Debt will be recorded in future periods as payments of interest on the New Debt will be recorded as a reduction in the carrying amount; thus, our reported interest expense will be significantly less than the contractual interest payments through the terms of the New Debt. Under ASC 470-60, payments related to the New Debt 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:

Credit Agreement. The Credit Agreement provides a revolving bank credit facility and expires by its term on November 8, 2018. The primary items of the Credit Agreement are as follows, with certain terms defined under the Credit Agreement:

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

Availability under our revolving bank credit 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. The 2018 spring redetermination reaffirmed the borrowing base amount of $150.0 million. Any redetermination by our lenders to change our borrowing base will result in a similar change in the availability under our revolving bank credit facility. The revolving bank credit facility is secured and is collateralized by a first priority lien on substantially all of our oil and natural gas properties.

The Credit Agreement contains various customary covenants for certain financial tests, as defined in the Credit Agreement and are measured as of the end of each quarter, and for customary events of default. The customary events of default include: (i) nonpayment of principal when due or nonpayment of interest or other amounts within three business days of when due; (ii) bankruptcy or insolvency with respect to the Company or any of its subsidiaries guaranteeing borrowings under the revolving bank credit facility; or (iii) a change of control. The Credit Agreement contains cross-default clauses with the other long-term debt agreements, and such agreements contain similar cross-default clauses with the Credit Agreement.

As of June 30, 2018 and December 31, 2017, we did not have any borrowings outstanding on the revolving bank credit facility and had $9.7 million and $0.3 million of letters of credit outstanding, respectively. Available credit as

of June 30, 2018 was $140.3 million. As of June 30, 2018, we have deposited $4.7 million with the lead bank in compliance with the terms of the Credit Agreement as letters of credit are considered borrowings and our unrestricted cash balance exceeded $35.0 million.

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. The maturity date will accelerate to February 28, 2019 if the remaining Unsecured Senior Notes have not been extended, renewed, refunded, defeased, discharged, replaced or refinanced by February 28, 2019. Interest accrues at 11.00% per annum and is payable quarterly in cash. The 1.5 Lien Term Loan is secured by a 1.5 priority lien on all of our assets pledged under the Credit Agreement. The lien securing the 1.5 Lien Term Loan is subordinate to the liens securing the 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 have been included in the carrying value under ASC 470-60. The 1.5 Lien Term Loan contains various covenants that limit, among other things, our ability to: (i) pay cash dividends; (ii) repurchase the Unsecured Senior Notes at a price greater than 65% of par and limited to a basket of $35 million; (iii) repurchase our common stock; (iv) sell our assets; (v) make certain loans or investments; (vi) merge or consolidate; (vii) enter into certain liens; (viii) create liens that secure debt; and (ix) enter into transactions with affiliates.

Second Lien Term Loan. In May 2015, we entered into the 9.00% Term Loan (the “Second Lien Term Loan”), which bears an annual interest rate of 9.00%. The Second Lien Term Loan was issued at a 1.0% discount to par, matures on May 15, 2020 and is recorded at its carrying value consisting of principal, unamortized discount and unamortized debt issuance costs. Interest on the Second Lien Term Loan is payable in arrears semi-annually on May 15 and November 15. The estimated annual effective interest rate on the Second Lien Term Loan is 9.6%, which includes amortization of debt issuance costs and discounts. The Second Lien Term Loan is secured by a second-priority lien on all of our assets that are secured under the Credit Agreement. The Second Lien Term Loan is effectively subordinate to the Credit Agreement and the 1.5 Lien Term Loan (discussed above) and is effectively pari passu with the Second Lien PIK Toggle Notes (discussed below). The Second Lien Term Loan contains covenants that limit or prohibit our ability and the ability of certain of our subsidiaries to: (i) incur additional debt; (ii) make payments or distributions on account of our or our restricted subsidiaries’ capital stock; (iii) sell assets; (iv) restrict dividends or other payments of our restricted subsidiaries to us; (v) create liens that secure debt; (vi) enter into transactions with affiliates; and (vii) merge or consolidate with another company.

Second Lien PIK Toggle Notes. In September 2016, we issued Second Lien PIK Toggle Notes with a maturity date of May 15, 2020. Interest is 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 is payable in cash at the rate of 9.00% per annum. The Second Lien PIK Toggle Notes are secured by a second-priority lien on all of our assets that are pledged under the Credit Agreement. The Second Lien PIK Toggle Notes are effectively subordinate to the Credit Agreement and the 1.5 Lien Term Loan and are effectively pari passu with the Second Lien Term Loan. The Second Lien PIK Toggle Notes and related Support Agreement contain covenants that limit or prohibit our ability and the ability of certain of our subsidiaries to: (i) incur additional debt; (ii) make payments or distributions on account of our or our restricted subsidiaries’ capital stock; (iii) sell assets; (iv) restrict dividends or other payments of our restricted subsidiaries to us; (v) create liens that secure debt; (vi) enter into transactions with affiliates; and (vii) merge or consolidate with another company.

Third Lien PIK Toggle Notes. In September 2016, we issued Third Lien PIK Toggle Notes with a maturity date of June 15, 2021. The maturity date will accelerate to February 28, 2019 if the remaining Unsecured Senior Notes have not been extended, renewed, refunded, defeased, discharged, replaced or refinanced by February 28, 2019. Interest is payable on June 15 and December 15 of each year. For the interest periods up to and including September 6, 2018, if we so elect, we have 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 will be added to the principal amount. After September 6, 2018, interest is payable in cash at the rate of 8.50% per annum. The Third Lien PIK Toggle Notes are secured by a third-priority lien on all of our assets that are

secured under the Credit Agreement. The Third Lien PIK Toggle Notes are effectively subordinate to the Second Lien Term Loan and the Second Lien PIK Toggle Notes. The Third Lien PIK Toggle Notes and related Support Agreement contain covenants that limit or prohibit our ability and the ability of certain of our subsidiaries to: (i) incur additional debt; (ii) make payments or distributions on account of our or our restricted subsidiaries' capital stock; (iii) sell assets; (iv) restrict dividends or other payments of our restricted subsidiaries to us; (v) create liens that secure debt; (vi) enter into transactions with affiliates; and (vii) merge or consolidate with another company.

Unsecured Senior Notes. Our outstanding Unsecured Senior Notes, which bear an annual interest rate of 8.50% and mature on June 15, 2019, were recorded at their carrying value, which includes unamortized debt premium and unamortized debt issuance costs. Interest on the Unsecured Senior Notes is payable semi-annually in arrears on June 15 and December 15. The estimated annual effective interest rate on the Unsecured Senior Notes is 8.4%, which includes amortization of premiums and debt issuance costs. The Unsecured Senior Notes contain covenants that limit or prohibit our ability and the ability of certain of our subsidiaries to: (i) incur additional debt; (ii) make payments or distributions on account of our or our restricted subsidiaries' capital stock; (iii) sell assets; (iv) restrict dividends or other payments of our restricted subsidiaries to us; (v) create liens that secure debt; (vi) enter into transactions with affiliates; and (vii) merge or consolidate with another company.

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

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

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	June 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	300,000	288,000
9.00%/10.75% Second Lien PIK Toggle Notes, due May 2020	Level 2	177,513	162,322
8.50%/10.00% Third Lien PIK Toggle Notes, due June 2021	Level 2	153,614	119,490
8.50% Unsecured Senior Notes, due June 2019	Level 2	187,931	178,439

The long-term debt items are reported on the Condensed Consolidated Balance Sheets at their carrying value as described in Note 2.

4. JV Drilling Program

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 ("Monza"), 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 will be reconveyed to W&T. Since the initial closing, additional investors

have joined as members of Monza and as of June 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. 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 June 30, 2018, members of Monza made partner capital contribution payments to Monza totaling $89.4 million.

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 which will be subject to consent by W&T. 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 June 30, 2018, in the Condensed Consolidated Balance Sheet, we recorded $6.0 million in oil and natural gas properties, $2.3 million in other assets and $1.7 million, net reduction in working capital in connection with our proportional interest in Monza's assets and liabilities. For the six months ended June 30, 2018, we recorded $0.5 million in revenue, $0.4 million in operating expense and $0.2 million in other expense in connection with our proportional interest in Monza's operations.

Maximum Exposure. Our contribution to Monza as of June 30, 2018 was $48.8 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. 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 $16.6 million on the closing date. 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 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.

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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	(12,124)
Accretion of discount	9,273
Liabilities assumed through purchase	3,597
Revisions of estimated liabilities [1]	16,028
Balance, June 30, 2018	317,220
Less current portion	27,923
Long-term	$289,297

(1) Revisions were primarily related to wells that experienced sustained casing pressure issues. In addition, some properties experienced scope change.

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 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.

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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.

As of June 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	368,000	$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	920,000	$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	368,000	$60.00	$69.50
2018	December	2,000	368,000	$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.

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):

	June 30, 2018	December 31, 2017
Open contracts	$5,070	$ —
Closed contracts - not settled	211	84
Total contracts	$5,281	$ 84

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Derivative (gain) loss	$6,219	$(3,689)	$6,219	$(7,644)

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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):

	Six Months Ended June 30,	
	2018	2017
Cash receipts (payments) on derivative settlements, net	$(1,149)	$2,208

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 revolving bank credit facility, 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 June 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 (the "Plan") was approved by our shareholders, and amendments to the Plan were approved by our shareholders in May 2013, May 2016 and May 2017. The May 2017 amendment increased the number of shares available in the Plan by 7,700,000 shares. As allowed by the Plan, during 2017 and 2016, the Company granted restricted stock units ("RSUs") to certain of its employees. RSUs are a long-term compensation component of the Plan, which are granted to certain employees, and are subject to adjustments at the end of the applicable performance period based on the results 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 typically based on the Company and the employee achieving certain pre-defined performance criteria.

As of June 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 when RSUs are settled in shares of common stock, net of withholding tax. The Company has the option at vesting to settle RSUs in stock or cash, or a combination of stock and cash. The Company plans to settle RSUs that vest in the future using shares of common stock.

RSUs currently outstanding related to the 2017 and 2016 grants have been adjusted for performance achieved against predetermined criteria for the applicable performance year. These RSUs continue to be subject to employment-based criteria and vesting occurs in December of the second year after the grant. See the table below for potential 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 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 six months ended June 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
Vested	(28,503)	2.38
Forfeited/adjustments	(45,017)	2.47
Nonvested, June 30, 2018	5,691,731	2.48

For the outstanding RSUs issued to the eligible employees as of June 30, 2018, vesting is expected to occur as follows:

	Restricted Stock Units
2018	3,698,748
2019	1,992,983
Total	5,691,731

Awards to Non-Employee Directors. 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 2018, 2017 and 2016. As of June 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 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, June 30, 2018	181,832	3.08

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For the outstanding Restricted Shares issued to the non-employee directors as of June 30, 2018, vesting is expected to occur as follows:

	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 six months ended June 30, 2018 compared to the prior year period as no RSU awards have been granted yet as of June 30, 2018. A summary of incentive compensation expense under share-based payment arrangements and the related tax benefit is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Share-based compensation expense from:				
Restricted stock units	$1,145	$2,342	$2,294	$4,200
Restricted Shares	70	70	140	140
Total	$1,215	$2,412	$2,434	$4,340
Share-based compensation tax benefit:				
Tax benefit computed at the statutory rate	$255	$844	$511	$1,519

Unrecognized Share-Based Compensation. As of June 30, 2018, unrecognized share-based compensation expense related to our awards of RSUs and Restricted Shares was $3.9 million and $0.5 million, respectively. Unrecognized share-based compensation expense will be recognized through November 2019 for RSUs and April 2021 for Restricted Shares.

Cash-Based Incentive Compensation. In addition to share-based compensation, cash-based awards were granted under the Plan to substantially all eligible employees in 2017 and 2016. The cash-based awards, which are a short-term component of the Plan, are performance-based awards consisting of one or more business criteria or individual performance criteria and a targeted level or levels of performance with respect to each such criterion. In addition, these cash-based awards included 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. Expense is recognized over the service period once the business criteria, individual performance criteria and financial condition are met.

- 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.
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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 not achieved as of June 30, 2018; therefore no expense was recognized during the six months ended June 30, 2018 or during 2017. 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Share-based compensation included in:				
General and administrative expenses	$1,215	$2,412	$2,434	$4,340
Cash-based incentive compensation included in:				
Lease operating expense	543	394	1,403	394
General and administrative expenses	1,391	1,004	4,063	1,004
Total charged to operating income	$3,149	$3,810	$7,900	$5,738

9. Income Taxes

Our income tax expense for the three and six months ended June 30, 2018 was $0.1 million and $0.2 million, respectively. Our income tax benefit for the three and six months ended June 30, 2017 was $9.0 million and $16.6 million, respectively. Our effective tax rate was not meaningful for the periods presented. Our current full-year forecast for 2018 has a net operating loss for tax purposes; therefore, no current tax expense was recorded related to the full-year forecast. In addition, no deferred income tax expense was recorded due to dollar-for-dollar offsets by our valuation allowance. The income tax benefit for the three months ended June 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 six months ended June 30, 2018 and 2017, we did not receive any income tax refunds and made no income tax payments of significance.

As of June 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 receivables primarily relate 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.

As of June 30, 2018 and December 31, 2017, our valuation allowance was $158.1 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$36,083	$33,315	$63,723	$57,614
Less portion allocated to nonvested shares	1,474	1,374	2,621	2,442
Net income allocated to common shares	$34,609	$31,941	$61,102	$55,172
Weighted average common shares outstanding	138,929	137,552	138,892	137,533
Basic and diluted earnings per common share	$0.25	$0.23	$0.44	$0.40

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. 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 June 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 June 30, 2018 and December 31, 2017.

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 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.

W&T OFFSHORE, INC. AND SUBSIDIARIES
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(Unaudited)

Royalties-In-Kind ("RIK"). Under a program with the Minerals Management Service ("MMS") (a Department of Interior agency and predecessor to the ONRR), royalties could be paid "in-kind" rather than in value from oil and gas companies operating under federal leases. We participated in the RIK program at our 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 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. Part of the ruling was in favor of our position and part was in favor of MMS' position. Based solely on the magistrate's ruling, we increased a liability reserve by $1.2 million from a previously recorded amount of $0.9 million recorded in 2012. We are appealing 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 six months ended June 30, 2018 and 2017, we paid additional royalty payments of $0.3 million and $1.1 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 six months ended June 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 five 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 June 2014. The proposed civil penalties for these INCs total $7.8 million. We have accrued approximately $3.4 million as of June 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 six months ended June 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. Supplemental Guarantor Information

Our payment obligations under the 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 (see Note 2) are fully and unconditionally guaranteed by certain of our 100%-owned subsidiaries, including Energy VI and W & T Energy VII, LLC (together, the "Guarantor Subsidiaries"). W & T Energy VII, LLC does not currently have any active operations or contain any assets. Guarantees will 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 applicable indenture);
(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 indenture 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 certain debt documents;
(4) upon Legal Defeasance or Covenant Defeasance (as such terms are defined in the applicable indenture) or upon satisfaction and discharge of the certain debt documents;
(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 certain debt documents, 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.

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Condensed Consolidating Balance Sheet as of June 30, 2018

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Adjustments	Eliminations	Consolidated W&T Offshore, Inc.
	(In thousands)				
Assets					
Current assets:					
Cash and cash equivalents	$129,440	$ —	$ —	$—	$ 129,440
Receivables:					
Oil and natural gas sales	8,109	44,161	(197)	—	52,073
Joint interest	19,366	—	—	—	19,366
Income taxes	193,594	—	—	(128,354)	65,240
Total receivables	221,069	44,161	(197)	(128,354)	136,679
Prepaid expenses and other assets	16,739	3,700	31	—	20,470
Total current assets	367,248	47,861	(166)	(128,354)	286,589
Oil and natural gas properties and other, net	416,539	121,075	48,003	(9,544)	576,073
Restricted deposits for asset retirement obligations	26,072	—	—	—	26,072
Other assets	607,463	544,029	(46,464)	(1,035,610)	69,418
Total assets	$1,417,322	$ 712,965	$ 1,373	$(1,173,508)	$ 958,152
Liabilities and Shareholders' Equity (Deficit)					
Current liabilities:					
Accounts payable	$38,445	$ 6,457	$ 1,562	$—	$ 46,464
Undistributed oil and natural gas proceeds	21,390	1,259	—	—	22,649
Asset retirement obligations	21,663	6,260	—	—	27,923
Current maturities of long-term debt:					
Principal	189,829	—	—	—	189,829
Carrying value adjustments	34,917	—	—	—	34,917
Current maturities of long-term debt - carrying value	224,746	—	—	—	224,746
Accrued liabilities	20,523				