
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2019**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 1-32414

W&T OFFSHORE, INC.

(Exact name of registrant as specified in its charter)

Texas
(State of incorporation)

72-1121985
(IRS Employer Identification Number)

Nine Greenway Plaza, Suite 300, Houston, Texas
(Address of principal executive offices)

77046-0908
(Zip Code)

(713) 626-8525
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every interactive data file required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

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.

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.00001	WTI	New York Stock Exchange

As of October 29, 2019, there were 140,690,393 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)
(Unaudited)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 41,741	\$ 33,293
Receivables:		
Oil and natural gas sales	51,626	47,804
Joint interest and other, net	30,484	14,634
Income taxes	36,910	54,076
Total receivables	119,020	116,514
Prepaid expenses and other assets (Note 1)	40,221	76,406
Total current assets	200,982	226,213
Oil and natural gas properties and other, net - at cost (Note 1)	720,951	515,421
Restricted deposits for asset retirement obligations	16,694	15,685
Deferred income taxes	55,579	—
Other assets (Note 1)	32,864	91,547
Total assets	<u>\$ 1,027,070</u>	<u>\$ 848,866</u>
Liabilities and Shareholders' Deficit		
Current liabilities:		
Accounts payable	\$ 105,922	\$ 82,067
Undistributed oil and natural gas proceeds	25,550	28,995
Advances from joint interest partners	36,473	20,627
Asset retirement obligations	23,095	24,994
Accrued liabilities (Note 1)	37,254	29,611
Total current liabilities	228,294	186,294
Long-term debt	718,949	633,535
Asset retirement obligations, less current portion	321,400	285,143
Other liabilities (Note 1)	16,267	68,690
Commitments and contingencies	—	—
Shareholders' deficit:		
Preferred stock, \$0.00001 par value; 20,000 shares authorized; 0 issued for both dates presented	—	—
Common stock, \$0.00001 par value; 200,000 shares authorized; 143,560 issued and 140,690 outstanding on September 30, 2019 and 143,513 issued and 140,644 outstanding on December 31, 2018	1	1
Additional paid-in capital	548,134	545,705
Retained deficit	(781,808)	(846,335)
Treasury stock, at cost; 2,869 shares for both dates presented	(24,167)	(24,167)
Total shareholders' deficit	(257,840)	(324,796)
Total liabilities and shareholders' deficit	<u>\$ 1,027,070</u>	<u>\$ 848,866</u>

See Notes to Condensed Consolidated Financial Statements

W&T OFFSHORE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share data)
(Unaudited)

	Three Months Ended September		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Oil	\$ 102,786	\$ 119,482	\$ 298,684	\$ 333,406
NGLs	4,373	10,087	15,461	28,481
Natural gas	23,686	22,641	65,091	71,485
Other	1,376	1,249	3,766	3,912
Total revenues	132,221	153,459	383,002	437,284
Operating costs and expenses:				
Lease operating expenses	47,185	37,430	130,982	109,855
Production taxes	588	432	1,321	1,326
Gathering and transportation	5,955	5,779	19,446	15,764
Depreciation, depletion, amortization and accretion	38,841	36,969	110,680	114,807
General and administrative expenses	10,106	15,990	37,543	45,248
Derivative (gain) loss	(5,853)	(288)	41,228	5,931
Total costs and expenses	96,822	96,312	341,200	292,931
Operating income	35,399	57,147	41,802	144,353
Interest expense, net	14,445	10,727	42,934	33,475
Other expense, net	555	18	1,364	532
Income (loss) before income tax (benefit) expense	20,399	46,402	(2,496)	110,346
Income tax (benefit) expense	(55,500)	142	(67,023)	363
Net income	\$ 75,899	\$ 46,260	\$ 64,527	\$ 109,983
Basic and diluted earnings per common share	\$ 0.53	\$ 0.32	\$ 0.45	\$ 0.76

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
(In thousands)
(Unaudited)

	<u>Common Stock Outstanding</u>		<u>Additional Paid-In Capital</u>	<u>Retained Deficit</u>	<u>Treasury Stock</u>		<u>Total Shareholders' Deficit</u>
	<u>Shares</u>	<u>Value</u>			<u>Shares</u>	<u>Value</u>	
Balances, June 30, 2019	140,690	\$ 1	\$ 546,886	\$ (857,707)	2,869	\$ (24,167)	\$ (334,987)
Share-based compensation	—	—	1,248	—	—	—	1,248
Net income	—	—	—	75,899	—	—	75,899
Balances, September 30, 2019	<u>140,690</u>	<u>\$ 1</u>	<u>\$ 548,134</u>	<u>\$ (781,808)</u>	<u>2,869</u>	<u>\$ (24,167)</u>	<u>\$ (257,840)</u>

	<u>Common Stock Outstanding</u>		<u>Additional Paid-In Capital</u>	<u>Retained Deficit</u>	<u>Treasury Stock</u>		<u>Total Shareholders' Deficit</u>
	<u>Shares</u>	<u>Value</u>			<u>Shares</u>	<u>Value</u>	
Balances, June 30, 2018	139,154	\$ 1	\$ 548,196	\$ (1,031,439)	2,869	\$ (24,167)	\$ (507,409)
Share-based compensation	—	—	1,373	—	—	—	1,373
Net income	—	—	—	46,260	—	—	46,260
Balances, September 30, 2018	<u>139,154</u>	<u>\$ 1</u>	<u>\$ 549,569</u>	<u>\$ (985,179)</u>	<u>2,869</u>	<u>\$ (24,167)</u>	<u>\$ (459,776)</u>

	<u>Common Stock Outstanding</u>		<u>Additional Paid-In Capital</u>	<u>Retained Deficit</u>	<u>Treasury Stock</u>		<u>Total Shareholders' Deficit</u>
	<u>Shares</u>	<u>Value</u>			<u>Shares</u>	<u>Value</u>	
Balances, December 31, 2018	140,644	\$ 1	\$ 545,705	\$ (846,335)	2,869	\$ (24,167)	\$ (324,796)
Share-based compensation	—	—	2,429	—	—	—	2,429
Stock Issued	46	—	—	—	—	—	—
Net income	—	—	—	64,527	—	—	64,527
Balances, September 30, 2019	<u>140,690</u>	<u>\$ 1</u>	<u>\$ 548,134</u>	<u>\$ (781,808)</u>	<u>2,869</u>	<u>\$ (24,167)</u>	<u>\$ (257,840)</u>

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

(1) RSUs defined in Note 9.

See Notes to Condensed Consolidated Financial Statements

W&T OFFSHORE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
Operating activities:		
Net income	\$ 64,527	\$ 109,983
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	110,680	114,807
Amortization of debt items and other items	3,914	1,796
Share-based compensation	2,429	3,808
Derivative loss	41,228	5,931
Cash receipts (payments) on derivative settlements, net	17,583	(3,091)
Income taxes	(55,764)	363
Changes in operating assets and liabilities:		
Oil and natural gas receivables	(3,822)	(4,039)
Joint interest receivables	(15,850)	3,261
Prepaid expenses and other assets	(14,211)	(8,467)
Income tax receivables	17,165	(139)
Asset retirement obligation settlements	(7,740)	(22,764)
Cash advances from JV partners	15,847	27,014
Accounts payable, accrued liabilities and other	10,610	66,389
Net cash provided by operating activities	<u>186,596</u>	<u>294,852</u>
Investing activities:		
Investment in oil and natural gas properties and equipment	(93,482)	(79,422)
Acquisition of property interest	(167,718)	(16,782)
Proceeds from sale of assets	—	50,474
Purchases of furniture, fixtures and other	(20)	—
Net cash used in investing activities	<u>(261,220)</u>	<u>(45,730)</u>
Financing activities:		
Borrowings of long-term debt - revolving bank credit facility	150,000	—
Repayments of long-term debt - revolving bank credit facility	(66,000)	—
Payment of interest on 1.5 Lien Term Loan	—	(6,171)
Payment of interest on 2nd Lien PIK Toggle Notes	—	(2,920)
Debt issuance costs and other	(928)	(26)
Net cash provided by (used in) financing activities	<u>83,072</u>	<u>(9,117)</u>
Increase in cash and cash equivalents	8,448	240,005
Cash and cash equivalents, beginning of period	33,293	99,058
Cash and cash equivalents, end of period	<u>\$ 41,741</u>	<u>\$ 339,063</u>

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 the Company and its 100%-owned subsidiary, W & T Energy VI, LLC, and through our proportionately consolidated interest in Monza Energy LLC (“Monza”), as described in more detail in Note 4.

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

Operating results for interim periods are not necessarily indicative of the results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

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.

Leases. In February 2016, Accounting Standards Update 2016-02, Leases (*Topic 842*) (“ASU 2016-02”) was issued requiring an entity to recognize a right-of-use (“ROU”) asset and lease liability for all leases. The classification of leases as either a finance or operating lease determines the recognition, measurement and presentation of expenses. ASU 2016-02 also requires certain quantitative and qualitative disclosures about leasing arrangements. Leases acquired to explore for or extract oil or natural gas resources, including the right to explore for those natural resources and rights to use the land in which those natural resources are contained, are not within the scope of this standard’s update. ASU 2016-02 was effective for us in the first quarter of 2019 and we adopted the new standard using a modified retrospective approach, with the date of initial application on January 1, 2019. Consequently, upon transition, we recognized an ROU asset and a lease liability with no retained earnings impact. See Note 8 for additional information.

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

Revenue Recognition. We recognize revenue from the sale of crude oil, natural gas liquids ("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.

Reclassifications. Certain reclassifications have been made to the prior period financial statements to conform to the current presentation as follows: In the Condensed Consolidated Statements of Operations, interest income was reclassified from *Other expense, net* to *Interest expense, net*, which did not change *Income (loss) before income tax (benefit) expense*. In the Condensed Consolidated Statements of Cash Flows, adjustments were made to certain line items within the *Net cash provided by operating activities* and *Net cash used in investing activities* sections, of which did not change the total amounts previous reported. The adjustments did not affect the Condensed Consolidated Balance Sheets.

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

	September 30, 2019	December 31, 2018
Derivative assets (1)	\$ 23,150	\$ 60,687
Unamortized bond/insurance premiums	5,497	5,197
Prepaid deposits related to royalties	8,794	8,872
Other	2,780	1,650
Prepaid expenses and other assets	<u>\$ 40,221</u>	<u>\$ 76,406</u>

(1) Includes closed contracts which have not yet settled.

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

	September 30, 2019	December 31, 2018
Oil and natural gas properties and equipment	\$ 8,471,973	\$ 8,169,871
Furniture, fixtures and other	20,247	20,228
Total property and equipment	8,492,220	8,190,099
Less accumulated depreciation, depletion and amortization	7,771,269	7,674,678
Oil and natural gas properties and other, net	<u>\$ 720,951</u>	<u>\$ 515,421</u>

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

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

	September 30, 2019	December 31, 2018
Appeal bond deposits	\$ 6,925	\$ 6,925
Unamortized debt issuance costs	4,138	4,773
Investment in White Cap, LLC	2,885	2,586
Unamortized brokerage fee for Monza	4,131	2,277
Proportional consolidation of Monza's other assets (Note 4)	3,660	3,275
Right-of Use (Note 8)	10,239	—
Escrow deposit - Apache lawsuit (Note 12)	—	49,500
Derivative assets	—	21,275
Other	886	936
Total other assets (long-term)	<u>\$ 32,864</u>	<u>\$ 91,547</u>

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

	September 30, 2019	December 31, 2018
Accrued interest	\$ 25,414	\$ 12,385
Accrued salaries/payroll taxes/benefits	2,267	2,320
Incentive compensation plans	3,667	10,817
Litigation accruals	3,673	3,673
Lease liability (Note 8)	1,877	—
Other	356	416
Total accrued liabilities	<u>\$ 37,254</u>	<u>\$ 29,611</u>

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

	September 30, 2019	December 31, 2018
Dispute related to royalty deductions	\$ 4,687	\$ 4,687
Dispute related to royalty-in-kind	2,231	2,135
Apache lawsuit (Note 12)	—	49,500
Uncertain tax positions including interest/penalties	—	11,523
Lease liability (Note 8)	7,883	—
Other	1,466	845
Total other liabilities (long-term)	<u>\$ 16,267</u>	<u>\$ 68,690</u>

Recent Accounting Developments.

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)* (“ASU 2016-13”) and subsequently issued additional guidance on this topic. 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. Our assessment is this amendment will not have a material impact on our financial statements.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities* (“ASU 2017-12”) and subsequently issued additional guidance on this topic. 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.

In August 2018, the SEC issued Final Rule Release No. 33-10532, *Disclosure Update and Simplification*, which revised Regulation S-X, Rule 3-04, *Changes in Stockholders’ Equity and Noncontrolling Interests*. The new requirement for registrants is to include a reconciliation of changes in stockholders’ equity (deficit) in interim periods for each period that for which a statement of operations is required to be filed. The new requirement became effective for us for the quarter ended March 31, 2019.

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

2. Long-Term Debt

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

	September 30, 2019	December 31, 2018
Credit Agreement borrowings	\$ 105,000	\$ 21,000
Senior Second Lien Notes:		
Principal	625,000	625,000
Unamortized debt issuance costs	(11,051)	(12,465)
Total Senior Second Lien Notes	613,949	612,535
Total long-term debt	\$ 718,949	\$ 633,535

Credit Agreement

On October 18, 2018, we entered into the Sixth Amended and Restated Credit Agreement (the “Credit Agreement”), which matures on October 18, 2022. The primary terms and covenants associated with the Credit Agreement are as follows, with capitalized terms defined under the Credit Agreement:

- The borrowing base and lending commitment was \$250.0 million as of the filing date of this Form 10-Q.
- Letters of credit may be issued in amounts up to \$30.0 million, provided availability under the Credit Agreement exists. As of September 30, 2019 and December 31, 2018, we had \$7.2 million and \$9.6 million, respectively, of letters of credit issued and outstanding under the Credit Agreement.
- The Leverage Ratio is limited to 3.25 to 1.00 for the quarter ending September 30, 2019; and 3.00 to 1.00 for the quarters ending December 31, 2019 and thereafter. In the event of a Material Acquisition (which includes our August 2019 acquisition of the Mobile Bay properties described in Note 7), the Leverage Ratio limit is 3.50 to 1.00 for the two quarters following a Material Acquisition.
- The Current Ratio must be maintained at greater than 1.00 to 1.00.

Availability under the Credit Agreement is subject to semi-annual redeterminations of our borrowing base to occur on or before May 15 and November 14 each calendar year, and certain additional redeterminations that may be requested at the discretion of either the lenders or the Company. The borrowing base has not changed from the initial amount. The borrowing base is calculated by our lenders based on their evaluation of our proved reserves and their own internal criteria. Any redetermination by our lenders to change our borrowing base will result in a similar change in the availability under the Credit Agreement. The Credit Agreement’s security is collateralized by a first priority lien on properties constituting at least 85% of the total proved reserves of the Company as set forth on reserve reports required to be delivered under the Credit Agreement and certain personal property. The annualized interest rate on borrowings outstanding for the nine months ended September 30, 2019 was 5.1%, which excludes debt issuance costs, commitment fees and other fees.

9.75% Senior Second Lien Notes Due 2023

On October 18, 2018, we issued \$625.0 million of 9.75% Senior Second Lien Notes due 2023 (the “Senior Second Lien Notes”), which were issued at par with an interest rate of 9.75% per annum and mature on November 1, 2023, and are governed under the terms of the Indenture of the Senior Second Lien Notes (the “Indenture”). The estimated annual effective interest rate on the Senior Second Lien Notes is 10.3%, which includes amortization of debt issuance costs. Interest on the Senior Second Lien Notes is payable in arrears on May 1 and November 1 of each year.

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

Covenants

As of September 30, 2019, we were in compliance with all applicable covenants of the Credit Agreement and the Indenture.

Fair Value Measurements

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

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

3. Fair Value Measurements

Derivative Financial Instruments

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 open derivative financial instruments are the exercise price, the expiration date, the settlement date, notional quantities, the implied volatility, the discount curve with spreads and published commodity future prices. Our open derivative financial instruments are reported in the Condensed Consolidated Balance Sheets using fair value. See Note 6, *Derivative Financial Instruments*, for additional information on our derivative financial instruments.

The following table presents the fair value of our open derivative financial instruments (in thousands):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Assets:		
Derivatives instruments - open contracts	\$ 21,965	\$ 74,580

Long-Term Debt

We believe the carrying value of our debt under the Credit Agreement approximates fair value because the interest rates are variable and reflective of current market rates. The fair value of our Senior Second Lien Notes was measured using quoted prices, although the market is not a very active market. The fair value of our long-term debt was classified as Level 2 within the valuation hierarchy. See Note 2, *Long-Term Debt* for additional information on our long-term debt.

The following table presents the carrying value and fair value of our long-term debt (in thousands):

	<u>September 30, 2019</u>		<u>December 31, 2018</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Liabilities:				
Credit Agreement	\$ 105,000	\$ 105,000	\$ 21,000	\$ 21,000
Senior Second Lien Notes	613,949	610,225	612,535	546,875

W&T OFFSHORE, INC. AND SUBSIDIARIES
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4. Joint Venture Drilling Program

On March 12, 2018, W&T and two other initial members formed and initially funded Monza, which jointly participates with us in the exploration, drilling and development of certain drilling projects (the “JV Drilling Program”) in the Gulf of Mexico. The projects are expected to be completed through 2020, but some projects may possibly extend into years beyond 2020. 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. Subsequent to the initial closing, additional investors joined as members of Monza during 2018 and total commitments by all members, including W&T, are \$361.4 million. 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. Any exceptions are approved by the Monza board. W&T is or will be the operator of each well in the JV Drilling Program unless there is a designated third-party operator.

Monza is an entity separate from any other entity with its own separate creditors who will be entitled, upon its liquidation, to be satisfied out of Monza’s assets prior to any value in Monza becoming available to holders of its equity. The assets of Monza are not available to pay creditors of the Company and its affiliates.

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.

As of September 30, 2019, members of Monza made partner capital contributions, including our initial contributions of working interest in the drilling projects, to Monza totaling \$282.2 million, of which \$125.5 million was contributed during the nine months ended September 30, 2019. Our net contribution to Monza, reduced by distributions received, as of September 30, 2019 was \$61.4 million. W&T is obligated to fund certain cost overruns to the extent they occur, subject to certain exceptions, for the JV Drilling Program wells above budgeted and contingency amounts, of which the total exposure cannot be estimated at this time.

Consolidation and Carrying Amounts. Our interest in Monza is considered to be a variable interest that we account for using proportional consolidation. Through September 30, 2019, there have not been any events or changes that would cause a redetermination of the variable interest status. We do not fully consolidate Monza because we are not considered the primary beneficiary and we utilize proportional consolidation to account for our interests in the Monza properties. As of September 30, 2019, in the Condensed Consolidated Balance Sheet, we recorded \$16.8 million, net, in *Oil and natural gas properties and other, net*, \$3.7 million in *Other assets* and \$3.6 million, net, increase in working capital in connection with our proportional interest in Monza’s assets and liabilities. As of December 31, 2018, in the Condensed Consolidated Balance Sheet, we recorded \$8.8 million, net, in *Oil and natural gas properties and other, net*, \$3.3 million in *Other assets* and \$0.7 million, net, increase in working capital in connection with our proportional interest in Monza’s assets and liabilities. For the nine months ended September 30, 2019, we recorded \$7.4 million in *Total revenues* and \$4.6 million in *Operating costs and expenses* in connection with our proportional interest in Monza’s operations. For the nine months ended September 30, 2018, we recorded \$2.2 million in *Total revenues*, \$1.1 million in *Operating costs and expenses* and \$0.3 million, net, in *Other (income) expense, net* in connection with our proportional interest in Monza’s operations.

Additionally, during the nine months ended September 30, 2019, we called on Monza to provide, and received, \$123.5 million to fund JV Drilling Program projects, of which \$36.5 million is included in the Condensed Consolidated Balance Sheet in *Advances from joint interest partners* as of September 30, 2019.

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5. Asset Retirement Obligations

Our asset retirement obligations (“ARO”) represent the estimated present value of the amount incurred to plug, abandon and remediate our properties at the end of their productive lives.

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

Balances, December 31, 2018	\$ 310,137
Liabilities settled	(7,740)
Accretion of discount	14,086
Liabilities assumed through purchase	21,619
Liabilities incurred	426
Revisions of estimated liabilities	5,967
Balances, September 30, 2019	344,495
Less current portion	23,095
Long-term	\$ 321,400

6. 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. All of the present derivative counterparties are also lenders or affiliates of lenders participating in our Credit Agreement. We are exposed to credit loss in the event of nonperformance by the derivative counterparties; however, we currently anticipate that each of our derivative counterparties will be able to fulfill their contractual obligations. We are not required to provide additional collateral to the derivative counterparties and we do not require collateral from our derivative counterparties.

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

During 2018, we entered into commodity contracts for crude oil and natural gas which related to a portion of our expected future production. The crude oil contracts are based on West Texas Intermediate (“WTI”) crude oil prices as quoted off the New York Mercantile Exchange (“NYMEX”). The natural gas contracts were based on Henry Hub natural gas prices as quoted off the NYMEX and expired during the second quarter of 2019. The open contracts as of September 30, 2019 are presented in the following tables:

Crude Oil: Swap, Priced off WTI (NYMEX)

Termination Period	Notional Quantity (Bbls/day) (1)	Notional Quantity (Bbls) (1)	Strike Price
May 2020	1,500	366,000	\$ 60.80
May 2020	5,000	1,220,000	61.00
May 2020	3,500	854,000	60.85

(1) Bbls = Barrels

Crude Oil: Calls - Bought, Priced off WTI (NYMEX)

Termination Period	Notional Quantity (Bbls/day) (1)	Notional Quantity (Bbls) (1)	Strike Price
May 2020	10,000	2,440,000	\$ 61.00

(1) Bbls = Barrels

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The following amounts were recorded in the Condensed Consolidated Balance Sheets in the categories presented and include the fair value of open contracts, and closed contracts which had not yet settled (in thousands):

	September 30, 2019	December 31, 2018
Prepaid expenses and other assets	\$ 23,150	\$ 60,687
Other assets (non-current)	—	21,275

The amounts recorded on the Condensed Consolidated Balance Sheets are on a gross basis. If these were recorded on a net settlement basis, it would not have resulted in any differences in reported amounts.

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,	
	2019	2018	2019	2018
Derivative (gain) loss	\$ (5,853)	\$ (288)	\$ 41,228	\$ 5,931

Cash receipts on commodity derivative contract settlements, net, 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,	
	2019	2018
Cash receipts (payments) on derivative settlements, net	\$ 17,583	\$ (3,091)

7. Oil and Gas Property Acquisitions and Divestiture

Mobile Bay Acquisition

On June 26, 2019, we entered into a purchase and sale agreement with ExxonMobil Corporation and certain of their subsidiaries (collectively "ExxonMobil") to acquire their interests in and operatorship of oil and gas producing properties in the eastern region of the Gulf of Mexico offshore Alabama and a related processing facility for \$200.0 million. On August 30, 2019, we closed on the purchase with ExxonMobil, and after taking into account customary closing adjustments and an effective date of January 1, 2019, cash consideration paid by us was \$167.6 million, including a previously-funded \$10.0 million deposit. The transaction is referred to as the "Mobile Bay Acquisition". The acquisition was funded from cash on hand and borrowings under the Credit Agreement, which was previously undrawn. We also assumed the related ARO and certain other obligations associated with these assets. The properties include working interests in nine Gulf of Mexico offshore producing fields and an onshore treatment facility that are adjacent to existing properties owned and operated by us.

We determined that the assets acquired did not meet the definition of a business under GAAP; therefore, the transaction was accounted for as an asset acquisition. The recorded values were determined using the cash paid to the seller and expenses incurred related to the transaction. Values for the liabilities assumed for ARO and certain other obligations were determined using the same methodology used to estimate other similar obligations of the Company. The components of the cash paid to the seller at closing and the amounts recorded on the Condensed Consolidated Balance Sheet for the purchase price allocation and liabilities assumed are presented in the following tables (in thousands):

Cash paid to seller at close date:	
Cash on hand	\$ 7,569
Performance deposit previously funded	10,000
Cash funded by the Credit Agreement (increase in long-term debt)	150,000
Total - cash paid to seller	<u>\$ 167,569</u>

	August 30, 2019 (Close Date)
Oil and natural gas properties and other, net - at cost:	\$ 191,450
Other assets	4,838
Current liabilities	2,819
Asset retirement obligations	21,619
Other liabilities	4,132

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Heidelberg Field

On April 5, 2018, we closed on the purchase from Cobalt International Energy, Inc. of a 9.375% non-operated working interest in the Heidelberg field located in Green Canyon blocks 859, 903 and 904. The gross purchase price was \$31.1 million which was adjusted for certain closing items and an effective date of January 1, 2018. Cash flows generated by the acquired interest between the effective date and the closing date reduced the net purchase price to \$16.8 million. We determined that the assets acquired did not meet the definition of a business; therefore, the transaction was accounted for as an asset acquisition.

Permian Basin

On September 28, 2018, we closed on the divestiture of substantially all of our ownership in an overriding royalty interests in the Permian Basin. The net proceeds received were \$56.6 million, which was recorded as a reduction to our full-cost pool.

8. Leases

ASU 2016-02 was effective for us on January 1, 2019 and we adopted the new standard using a modified retrospective approach. Consequently, upon transition, we recognized an ROU asset and a lease liability with no retained earnings impact.

As provided for in subsequent accounting standards updates related to ASU 2016-02, we are applying the following practical expedients which provide elections to:

- not apply the recognition requirements to short-term leases (a lease that at commencement date has a lease term of 12 months or less and does not contain a purchase option);
- not reassess whether a contract contains a lease, lease classifications between operating and financing and accounting for initial direct costs related to leases;
- not reassess certain land easements in existence prior to January 1, 2019;
- use hindsight in determining the lease term and assessing impairment; and
- not separate non-lease and lease components.

Based on the results of our implementation process, we identified one operating lease in existence at January 1, 2019 subject to ASU 2016-02, which is our real estate lease for office space in Houston, Texas that terminates in December 2022. We identified no finance leases. The implementation of ASU 2016-02 resulted in establishing an ROU asset and lease liability of \$5.0 million during the first quarter of 2019. The adoption of the new standard did not impact our Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Cash Flows or Condensed Consolidated Statements of Changes in Shareholders' Deficit.

During the nine months ended September 30, 2019, various pipeline rights-of-way contracts and a land lease were acquired, assumed, renewed or otherwise entered into, primarily in conjunction with the Mobile Bay Acquisition. For these contracts, an ROU asset and a corresponding lease liability was calculated based on our assumptions of the term, inflation rates and incremental borrowing rates. The term of each pipeline right-of-way contract is 10 years with various effective dates, and each has an option to renew for up to another ten years. It is expected renewals beyond 10 years can be obtained as renewals were granted to the previous lessees. The land lease has an option to renew every five years extending to 2085. The expected term of the rights-of way and land leases was estimated to approximate the life of the related reserves.

Minimum future lease payments were estimated assuming expected terms of the leases and estimated inflation escalations of payments for certain leases. Undiscounted future minimum payments as of September 30, 2019 are as follows: 2019 - \$0.8 million; 2020 - \$1.9 million; 2021 - \$1.9 million; 2022 - \$2.0 million; 2023 - \$0.5 million; and 2024 and beyond - \$13.2 million. During the nine months ended September 30, 2019 and 2018, expense recognized related to these leases was \$2.0 million for each period.

As of September 30, 2019, we recorded ROU assets and lease liabilities using a discount rate of 9.75% for the Houston office lease and 10.75% for the other leases. The discount rate (or incremental borrowing rate) was determined using the interest rate of recently issued debt instruments that were issued at par and for a similar term as the term of our Houston office lease. For the other lease contracts, a higher discount rate was used as the incremental borrowing rate due to longer expected termination dates. The expected terms of the leases ranged between three and 20 years, with no early terminations assumed.

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Amounts related to leases recorded within our Condensed Consolidated Balance Sheet are as follows (in thousands):

	September 30, 2019
ROU (net):	
Other assets	\$ 10,239
Lease liability:	
Accrued liabilities	\$ 1,877
Other liabilities	7,883
Total lease liability	\$ 9,760
Lease incentives:	
Other assets (contra-asset)	\$ (907)

During the nine months ended September 30, 2019, we incurred short-term lease costs related to drilling rigs of \$13.3 million, net to our interest, of which the majority of such costs were recorded within *Oil and natural gas properties, net*, on the Condensed Consolidated Balance Sheet. In exercising the practical expedient, we did not separate non-lease and lease components for these short-term leases.

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

Awards to Employees. In 2010, the W&T Offshore, Inc. Amended and Restated Incentive Compensation Plan (as amended from time to time, the “Plan”) was approved by our shareholders. During 2019, 2018 and 2017, the Company granted restricted stock units (“RSUs”) under the Plan to certain of its employees. RSUs are a long-term compensation component, and are subject to satisfaction of certain predetermined performance criteria and adjustments at the end of the applicable performance period based on the results achieved. In addition to share-based awards, the Company may grant to its employees cash-based incentive awards under the Plan, which may be used as short-term and long-term compensation components of the awards, and are subject to satisfaction of certain predetermined performance criteria.

As of September 30, 2019, there were 11,852,592 shares of common stock available for issuance in satisfaction of awards under the Plan. The shares available for issuance are reduced on a one-for-one basis when RSUs are settled in shares of common stock, which shares of common stock are issued net of withholding tax through the withholding of shares. The Company has the option following vesting to settle RSUs in stock or cash, or a combination of stock and cash. The Company expects to settle RSUs that vest in the future using shares of common stock.

RSUs currently outstanding relate to the 2019, 2018 and 2017 grants. The 2019 grants are subject to pre-determined performance criteria which will be measured using 2019 performance results. The 2018 and 2017 grants were subject to predetermined performance criteria applied against the applicable performance period. All the RSUs currently outstanding are subject to employment-based criteria and vesting generally occurs in December of the second year after the grant. See the table below for anticipated vesting by year.

We recognize compensation cost for share-based payments to employees over the period during which the recipient is required to provide service in exchange for the award. Compensation cost is based on the fair value of the equity instrument on the date of grant. The fair values for the RSUs granted during 2019, 2018 and 2017 were determined using the Company’s closing price on the grant date. We also 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.

A summary of activity related to RSUs during the nine months ended September 30, 2019 is as follows:

	Restricted Stock Units	
Units	Weighted Average Grant Date Fair Value Per Unit	
Nonvested, December 31, 2018	3,355,917	\$ 3.90
Granted	990,608	4.51
Forfeited (1)	(1,075,864)	3.12
Nonvested, September 30, 2019	3,270,661	4.34

(1) Primarily related to former executives' forfeitures.

For the outstanding RSUs issued to the eligible employees as of September 30, 2019, vesting is expected to occur as follows (subject to forfeitures):

	Restricted Stock Units
2019	1,485,510
2020	852,535
2021	932,616
Total	3,270,661

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Awards to Non-Employee Directors. Under the W&T Offshore, Inc. 2004 Directors Compensation Plan (as amended from time to time, the “Director Compensation Plan”), shares of restricted stock (“Restricted Shares”) have been granted to the Company’s non-employee directors. Grants to non-employee directors were made during 2019, 2018 and 2017. As of September 30, 2019, there were 82,620 shares of common stock available for issuance in satisfaction of awards under the Director Compensation Plan. The shares available are reduced on a one-to-one basis when Restricted Shares are granted.

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

The Restricted Shares are subject to service conditions and vesting occurs at the end of specified service periods unless otherwise 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 during the nine months ended September 30, 2019 is as follows:

	<u>Restricted Shares</u>	
	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value Per Share</u>
Nonvested, December 31, 2018	181,832	\$ 3.08
Granted	46,360	6.04
Vested	(105,012)	2.67
Nonvested, September 30, 2019	<u>123,180</u>	<u>4.55</u>

For the Restricted Shares vested during the nine months ended September 30, 2019, the grant date value was \$0.3 million and the vested date value, as determined on the vesting dates, was \$0.5 million.

For the outstanding Restricted Shares issued to the non-employee directors as of September 30, 2019, vesting is expected to occur as follows (subject to any forfeitures):

	<u>Restricted Shares</u>
2020	78,424
2021	29,300
2022	15,456
Total	<u>123,180</u>

Share-Based Compensation. Share-based compensation expense is recorded in the line *General and administrative expenses* in the Condensed Consolidated Statements of Operations. The tax benefit related to compensation expense recognized under share-based payment arrangements was not meaningful and was minimal due to our income tax situation. A summary of incentive compensation expense under share-based payment arrangements is as follows (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Share-based compensation expense from:				
Restricted stock units (1)	\$ 1,178	\$ 1,303	\$ 2,219	\$ 3,598
Restricted Shares	70	70	210	210
Total	<u>\$ 1,248</u>	<u>\$ 1,373</u>	<u>\$ 2,429</u>	<u>\$ 3,808</u>

(1) For the nine months ended September 30, 2019, share-based compensation expense includes adjustments for former executives’ forfeitures.

Unrecognized Share-Based Compensation. As of September 30, 2019, unrecognized share-based compensation expense related to our awards of RSUs and Restricted Shares was \$5.9 million and \$0.4 million, respectively. Unrecognized share-based compensation expense will be recognized through November 2021 for RSUs and April 2022 for Restricted Shares.

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Cash-Based Incentive Compensation. In addition to share-based awards, cash-based awards were granted under the Plan to eligible employees in 2019, 2018 and 2017. For 2018, there were two cash-based awards consisting of a long-term award and a short-term award. All cash-based awards are performance-based awards consisting of predetermined performance criteria applied against the applicable performance period. Expense for each award is recognized over the service period once the applicable financial condition is expected to be met, and the business criteria and individual performance criteria can be reasonably estimated for the applicable period.

- For the 2019 short-term, cash-based awards, incentive compensation expense was determined based on estimates of the Company achieving certain performance metrics for 2019 and is being recognized over the May 2019 to February 2020 period. The 2019 short-term, cash-based awards will be eligible for payment during March 2020, subject to participants meeting certain employment-based criteria.
- For the 2018 long-term, cash-based awards, incentive compensation expense was determined based on the Company achieving certain performance metrics for 2018 and is being recognized over the September 2018 to November 2020 period. The 2018 long-term, cash-based awards will be eligible for payment on December 14, 2020 subject to participants meeting certain employment-based criteria.
- For the 2018 short-term, cash-based awards, incentive compensation expense was determined based on the Company achieving certain performance metrics for 2018 combined with individual performance criteria for 2018 and was recognized over the January 2018 to February 2019 period. The 2018 short-term, cash-based awards were paid during March 2019.
- For the 2017 short-term, cash-based awards, incentive compensation expense was determined based on the Company achieving certain performance metrics for 2017 combined with individual performance criteria for 2017 and was recognized over the January 2017 to February 2018 period. The 2017 short term, cash-based awards were paid during March 2018.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Share-based compensation included in:				
General and administrative expenses	\$ 1,248	\$ 1,373	\$ 2,429	\$ 3,808
Cash-based incentive compensation included in:				
Lease operating expense (1)	672	837	951	2,240
General and administrative expenses (1)	1,679	1,534	5,017	5,597
Total charged to operating income	<u>\$ 3,599</u>	<u>\$ 3,744</u>	<u>\$ 8,397</u>	<u>\$ 11,645</u>

(1) Includes adjustments of accruals to actual payments.

10. Income Taxes

Tax Benefit and Tax Rate. We recorded an income tax benefit of \$55.5 million and \$67.0 million for the three and nine months ended September 30, 2019, respectively. During the three months ended September 30, 2019, we released a portion of the valuation allowance on our net deferred tax assets based on the Company's quarterly assessment of the realizability of net deferred tax assets, resulting in an income tax benefit of \$55.8 million. During the nine months ended September 30, 2019, we reversed a liability related to an uncertain tax position that was effectively settled with the Internal Revenue Service ("IRS"), resulting in an income tax benefit of \$11.5 million. Our effective tax rate was not meaningful for the periods presented due to these changes.

Valuation Allowance. Net deferred tax assets relate to net operating loss carryforwards, interest expense carryforwards and other temporary differences expected to produce tax deductions in future periods. The realization of these assets depends on recognition of sufficient future taxable income in specific federal and state tax jurisdictions in which those temporary differences 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 our deferred tax assets will not be realized. At December 31, 2018, our valuation allowance was \$117.8 million, which offset substantially all net deferred tax assets as of such date.

Throughout 2019, the Company has been in a cumulative three year pre-tax income position and has been assessing the realizeability of our deferred tax assets. During the quarter ended September 30, 2019, the Company's assessment included consideration of the Company's operating history and our forecasted taxable income using all available information. Based on the assessment, we determined that the Company's ability to maintain long-term profitability despite near-term changes in commodity prices and capital and operating costs demonstrated that a portion of the Company's net deferred tax assets would more likely than not be realized. We released \$55.8 million of the valuation allowance, resulting in an income tax benefit in the quarter ended September 30, 2019. As of September 30, 2019, the Company's valuation allowance was \$62.9 million.

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Income Taxes Receivable. As of September 30, 2019 and December 31, 2018, we had current income taxes receivable of \$36.9 million and \$54.1 million, respectively, related primarily to net operating loss carryback claims for the years 2012, 2013 and 2014 that were carried back to prior years. These carryback claims were made pursuant to IRC Section 172(f) (related to rules regarding “specified liability losses”), which permits certain platform dismantlement, well abandonment and site clearance costs to be carried back 10 years. During the three and nine months ended September 30, 2019, we received \$16.9 million in income tax refunds. During the same periods, we recorded interest income of \$0.5 million and \$4.5 million related to these income tax claims, respectively. During October 2019, we received \$34.9 million in additional income tax refunds in addition to the \$4.5 million in interest income and we expect to receive the remaining balance of claims of approximately \$2.0 million in the first half of 2020.

During the three and nine months ended September 30, 2018, we did not receive any income tax claims or make any income tax payments of significance.

The tax years 2013 through 2018 remain open to examination by the tax jurisdictions to which we are subject.

11. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 75,899	\$ 46,260	\$ 64,527	\$ 109,983
Less portion allocated to nonvested shares	1,345	1,860	1,272	4,489
Net income allocated to common shares	<u>\$ 74,554</u>	<u>\$ 44,400</u>	<u>\$ 63,255</u>	<u>\$ 105,494</u>
Weighted average common shares outstanding	140,567	138,972	140,520	138,917
Basic and diluted earnings per common share	\$ 0.53	\$ 0.32	\$ 0.45	\$ 0.76

12. Contingencies

Apache Lawsuit. On December 15, 2014, Apache filed a lawsuit against the Company, *Apache Deepwater, L.L.C. vs. W&T Offshore, Inc.*, alleging that W&T breached the joint operating agreement related to, among other things, the abandonment of three deepwater wells in the Mississippi Canyon 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 and provided oral arguments in December 2018. Prior to filing the appeal, in order to stay execution of the judgment, we deposited \$49.5 million with the registry of the court in June 2017. On July 16, 2019, a panel of the U.S. Court of Appeals for the Fifth Circuit rendered its opinion that affirmed the trial court’s judgment against the Company. Requests for rehearing and rehearing en banc subsequently were denied. The deposit with the registry of the court was distributed during the third quarter of 2019 pursuant to an agreement with Apache, which does not hinder the Company’s continuing right to seek United States Supreme Court review. The Company intends to pursue vigorously all available legal recourse.

As funds were distributed during the third quarter of 2019, no amounts were recorded on the Condensed Consolidated Balance Sheet as of September 30, 2019 related to this matter. Interest income of \$1.9 million was recorded in *Interest expense, net* on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019. The deposit of \$49.5 million made with the registry of the court was recorded in *Other assets* (long-term) and \$49.5 million was recorded in *Other liabilities* (long-term) on the Condensed Consolidated Balance Sheet as of December 31, 2018.

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 with the offset to a liability reserve; however, we disagree with the position taken by the ONRR. We filed an appeal with the ONRR, which was denied in May 2014. On June 17, 2014, we filed an appeal with the Interior Board of Land Appeals (“IBLA”) under the Department of the Interior. On January 27, 2017, the IBLA affirmed the decision of the ONRR requiring W&T to pay approximately \$4.7 million in additional royalties. We filed a motion for reconsideration of the IBLA decision on March 27, 2017. Based on a statutory deadline, we filed an appeal of the IBLA decision on July 25, 2017 in the U.S. District Court for the Eastern District of Louisiana. We were required to post a bond in the amount of \$7.2 million and cash collateral of \$6.9 million in order to appeal the IBLA decision. On December 4, 2018, the IBLA denied our motion for reconsideration. On February 4, 2019, we filed our first amended complaint, and the government has filed its Answer in the Administrative Record. On July 9, 2019, we filed an Objection to the Administrative Record and Motion to Supplement the Administrative Record, asking the court to order the government to file a complete privilege log with the record. Following a hearing on July 31, 2019, the Court ordered the government to file a complete privilege log. The government recently provided that privilege log and we are evaluating whether to move to compel production of any of the documents listed on the log. After these issues concerning the record are resolved, the parties will file cross-motions for summary judgment.

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

Royalties-In-Kind (“RIK”). Under a program of the Minerals Management Service (“MMS”) (a Department of Interior agency and predecessor to the ONRR), royalties must be paid “in-kind” rather than in value from federal leases in the program. The MMS added to the RIK program our lease at the East Cameron 373 field beginning in November 2001, where in some months we over delivered volumes of natural gas and under delivered volumes of natural gas in other months for royalties owed. The MMS elected to terminate receiving royalties in-kind in October 2008, causing the imbalance to become fixed for accounting purposes. The MMS ordered us to pay an amount based on its interpretation of the program and its calculations of amounts owed. We disagreed with MMS’s interpretations and calculations and filed an appeal with the IBLA, of which the IBLA ruled in MMS’ favor. We filed an appeal with the District Court of the Western District of Louisiana, who assigned the case to a magistrate to review and issue a ruling, and the District Court upheld the magistrate’s ruling on May 29, 2018. We filed an appeal on July 24, 2018. Part of the ruling was in favor of our position and part was in favor of MMS’ position. Based solely on the District Court’s ruling, we recorded a liability reserve of \$2.2 million and \$2.1 million as of September 30, 2019 and December 31, 2018, respectively. We have appealed the ruling to the U.S. Fifth Circuit Court of Appeals and the government filed a cross-appeal. Briefing has now been completed oral argument was held on October 9, 2019, and we are awaiting a final ruling from the Fifth Circuit. Based on the briefs filed, W&T has asserted that the government has waived its claim for interest for the period prior to the MMS’s issuance of its order in 2010 requiring W&T to make a cash payment to resolve delivery imbalances (MMS quantified this interest amount as approximately \$0.7 million); the government has not disputed W&T’s assertion on this issue.

Royalties – “Unbundling” Initiative. The ONRR has publicly announced an “unbundling” initiative to revise the methodology employed by producers in determining the appropriate allowances for transportation and processing costs that are permitted to be deducted in determining royalties under Federal oil and gas leases. The ONRR’s initiative requires re-computing allowable transportation and processing costs using revised guidance from the ONRR going back 84 months for every gas processing plant that processed our gas. In the second quarter of 2015, pursuant to the initiative, we received requests from the ONRR for additional data regarding our transportation and processing allowances on natural gas production related to a specific processing plant. We also received a preliminary determination notice from the ONRR asserting that our allocation of certain processing costs and plant fuel use at another processing plant was not allowed as deductions in the determination of royalties owed under Federal oil and gas leases. We have submitted revised calculations covering certain plants and time periods to the ONRR. As of the filing date of this Form 10-Q, we have not received a response from the ONRR related to our submissions. These open ONRR unbundling reviews, and any further similar reviews, could ultimately result in an order for payment of additional royalties under our Federal oil and gas leases for current and prior periods. For the nine months ended September 30, 2019 and 2018, we paid \$0.4 million and \$0.6 million, respectively, of additional royalties and expect to pay more in the future. We are not able to determine the range of any additional royalties or, if and when assessed, whether such amounts would be material.

Notices of Proposed Civil Penalty Assessment. During the nine months ended September 30, 2019 and 2018, 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 nine 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 these open civil penalties cite alleged non-compliance with various safety-related requirements and procedures occurring at separate offshore locations on various dates ranging from July 2012 to January 2018. The proposed civil penalties for these INCs total \$7.7 million. As of September 30, 2019 and December 31, 2018, we have accrued approximately \$3.5 million, 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.

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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The following discussion and analysis should be read in conjunction with our accompanying unaudited condensed consolidated financial statements and the notes to those financial statements included in Item 1 of this Quarterly Report on Form 10-Q. The following discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). These forward-looking statements involve risks, uncertainties and assumptions. If the risks or uncertainties materialize or the assumptions prove incorrect, our results may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, such as those statements that address activities, events or developments that we expect, believe or anticipate will or may occur in the future. These statements are based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Known material risks that may affect our financial condition and results of operations are discussed in Item 1A, *Risk Factors*, and market risks are discussed in Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, of our Annual Report on Form 10-K for the year ended December 31, 2018 and may be discussed or updated from time to time in subsequent reports filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We assume no obligation, nor do we intend to update these forward-looking statements. Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "W&T," "we," "us," "our" and the "Company" refer to W&T Offshore, Inc. and its consolidated subsidiaries.

Overview

We are an independent oil and natural gas producer, active in the exploration, development and acquisition of oil and natural gas properties in the Gulf of Mexico. We have grown through acquisitions, exploration and development and hold working interests in 53 offshore fields in federal and state waters (52 producing and one field capable of producing). As of September 30, 2019, we have under lease approximately 815,000 gross acres (535,000 net acres) spanning across the Outer Continental Shelf off the coasts of Louisiana, Texas, Mississippi and Alabama, with approximately 595,000 gross acres on the conventional shelf and approximately 220,000 gross acres in the deepwater (water depths in excess of 500 feet). A majority of our daily production is derived from wells we operate. Our interest in fields, leases, structures and equipment are primarily owned by W&T Offshore, Inc. and our wholly-owned subsidiary, W & T Energy VI, LLC, a Delaware limited liability company and through our proportionately consolidated interests in Monza, as described in more detail in *Financial Statements—Note 4—Joint Venture Drilling Program* under Part I, Item 1 in this Form 10-Q.

Our financial condition, cash flow and results of operations are significantly affected by the volume of our crude oil, NGLs and natural gas production and the prices that we receive for such production. Our production volumes for the nine months ended September 30, 2019 were comprised of 49.1% crude oil and condensate, 8.6% NGLs and 42.3% natural gas, determined on a barrel of oil equivalent ("Boe") using the energy equivalency ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel of crude oil, condensate or NGLs. The conversion ratio does not assume price equivalency, and the price per one Boe for crude oil, NGLs and natural gas has differed significantly in the past. For the nine months ended September 30, 2019, revenues from the sale of crude oil and NGLs made up 82.0% of our total revenues compared to 82.8% for the nine months ended September 30, 2018. For the nine months ended September 30, 2019, our combined total production expressed in equivalent volumes was 1.3% lower than for the nine months ended September 30, 2018, with NGLs having the largest decline. For the nine months ended September 30, 2019, our total revenues were 12.4% lower than the nine months ended September 30, 2018 primarily due to lower realized prices for crude oil, NGLs and natural gas. See *Results of Operations—Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018* in this Item 2 for additional information.

Our operating results are strongly influenced by the price of the commodities that we produce and sell. The price of those commodities is affected by both domestic and international factors, including domestic production. During the nine months ended September 30, 2019, our average realized crude oil price was \$61.00 per barrel. This is a decrease from our average realized crude oil price of \$66.52 per barrel, or 8.3%, for the nine months ended September 30, 2018 and a decrease from our average realized crude oil price of \$65.62 per barrel, or 7.0%, for the year 2018. Our average realized prices of NGLs and natural gas for the nine months ended September 30, 2019 were lower than the average realized prices for the nine months ended September 30, 2018 by 37.5% and 11.4%, respectively.

Our average realized crude oil sales price differs from the WTI benchmark average crude price primarily due to premiums or discounts, crude oil quality adjustments, volume weighting (collectively referred to as differentials) and other factors. Crude oil quality adjustments can vary significantly by field. All of our crude oil is produced offshore in the Gulf of Mexico and is characterized as Poseidon, Light Louisiana Sweet ("LLS"), Heavy Louisiana Sweet ("HLS") and others. WTI is frequently used to value domestically produced crude oil, and the majority of our crude oil production is priced using the spot price for WTI as a base price, then adjusted for the type and quality of crude oil and other factors. Similar to crude oil prices, the differentials for our offshore crude oil have also experienced volatility in the past. The monthly average differentials of WTI versus Poseidon, LLS and HLS for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 improved, with the increase ranging between \$3.30 per barrel and \$4.70 per barrel.

Two major components of our NGLs, ethane and propane, typically make up over 70% of an average NGL barrel. For the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, average prices for domestic ethane decreased by 22% and average domestic propane prices decreased by 39% as measured using a price index for Mount Belvieu. The average prices for other domestic NGLs components decreased 24% to 39% for the nine months ended September 30, 2019 compared to the same period in 2018. We believe the change in prices for NGLs is mostly a function of the change in crude oil prices combined with changes in propane supply and demand.

According to Baker Hughes, the number of working rigs drilling for oil and natural gas on land in the U.S. as of September 27, 2019 was lower than a year ago for land based rigs (a decrease of 194 rigs, or 19%), and higher in the Gulf of Mexico (an increase of four rigs or 20%). The oil rig count as of September 27, 2019 and September 28, 2018 was 713 and 863, respectively. The U.S. natural gas rig count as of September 27, 2019 and September 28, 2018 was 146 and 189, respectively. In the Gulf of Mexico, the number of working rigs was 22 rigs (21 oil rigs and one natural gas rig) as of September 27, 2019 and 18 rigs (16 oil rigs and two natural gas rigs) as of September 28, 2018. During the three months ended September 30, 2019, we had four rigs running, which represents approximately 18% of the active rigs in the Gulf of Mexico.

On August 30, 2019, we completed the previously announced purchase from ExxonMobil acquiring their interests in and operatorship of oil and gas producing properties in the eastern region of the Gulf of Mexico offshore Alabama and related onshore and offshore facilities and pipelines. After taking into account customary closing adjustments and an effective date of January 1, 2019, cash consideration paid by us was \$167.6 million cash, including a previously-funded \$10.0 million deposit. The acquisition was funded from cash on hand and borrowings of \$150.0 million under the Credit Agreement, which were previously undrawn. We also assumed the related ARO and certain other obligations associated with these assets. As of the effective date of the acquisition, we estimated the properties had approximately 74 million Boe of net proved reserves, of which 99% were proved developed producing reserves and 22% of the proved net reserves are from liquids, based on October 15, 2018 NYMEX Henry Hub gas and NYMEX WTI oil prices. These reserve estimates were not prepared in accordance with SEC rules and guidelines. For the first quarter of 2019, the average production of the properties being acquired was approximately 19,800 net Boe per day. The properties include working interests in nine Gulf of Mexico offshore producing fields and an onshore treatment facility that are adjacent to existing properties owned and operated by us. With this purchase, we will become the largest operator in the area.

Our capital expenditure forecast for 2019 excluding the above acquisition, other potential acquisitions and plugging and abandonment expenditures is estimated to be approximately \$130 to \$150 million composed of select shelf and deepwater projects most of which, assuming success, would be placed on production within a few months after completion. The forecast incorporates our capital spending relating to the JV Drilling Program (net to our interest). Our 2019 plans also include spending approximately \$13 million for ARO. We are currently developing and refining our plans for 2020. Based upon current price and production expectations for 2019 and 2020, we believe that our cash flows from operating activities, cash on hand and borrowing availability under the Credit Agreement will be sufficient to fund our operations through year-end 2020; however, future cash flows are subject to a number of variables and additional capital expenditures may be required to more fully develop our properties. We are also currently evaluating various acquisition opportunities, which, if successful, may increase our capital requirements in 2019 and beyond. We continue to closely monitor current and forecasted commodity prices to assess what changes, if any, should be made to our 2019 and 2020 plans. See our Annual Report on Form 10-K for the year ended December 31, 2018, for additional information.

Results of Operations

The following tables set forth selected financial and operating data for the periods indicated (all values are net to our interest unless indicated otherwise):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	Change	%	2019	2018	Change	%
(In thousands, except percentages and per share data)								
Financial:								
Revenues:								
Oil	\$ 102,786	\$ 119,482	\$ (16,696)	(14.0)%	\$ 298,684	\$ 333,406	\$ (34,722)	(10.4)%
NGLs	4,373	10,087	(5,714)	(56.6)%	15,461	28,481	(13,020)	(45.7)%
Natural gas	23,686	22,641	1,045	4.6%	65,091	71,485	(6,394)	(8.9)%
Other	1,376	1,249	127	10.2%	3,766	3,912	(146)	(3.7)%
Total revenues	132,221	153,459	(21,238)	(13.8)%	383,002	437,284	(54,282)	(12.4)%
Operating costs and expenses:								
Lease operating expenses	47,185	37,430	9,755	26.1%	130,982	109,855	21,127	19.2%
Production taxes	588	432	156	36.1%	1,321	1,326	(5)	(0.4)%
Gathering and transportation	5,955	5,779	176	3.0%	19,446	15,764	3,682	23.4%
Depreciation, depletion, amortization and accretion	38,841	36,969	1,872	5.1%	110,680	114,807	(4,127)	(3.6)%
General and administrative expenses	10,106	15,990	(5,884)	(36.8)%	37,543	45,248	(7,705)	(17.0)%
Derivative (gain) loss	(5,853)	(288)	(5,565)	NM	41,228	5,931	35,297	NM
Total costs and expenses	96,822	96,312	510	0.5%	341,200	292,931	48,269	16.5%
Operating income	35,399	57,147	(21,748)	(38.1)%	41,802	144,353	(102,551)	(71.0)%
Interest expense, net	14,445	10,727	3,718	34.7%	42,934	33,475	9,459	28.3%
Other expense, net	555	18	537	NM	1,364	532	832	NM
Net income (loss) before income tax (benefit) expense	20,399	46,402	(26,003)	(56.0)%	(2,496)	110,346	(112,842)	NM
Income tax (benefit) expense	(55,500)	142	(55,642)	NM	(67,023)	363	(67,386)	NM
Net income	\$ 75,899	\$ 46,260	\$ 29,639	64.1%	\$ 64,527	\$ 109,983	\$ (45,456)	(41.3)%
Basic and diluted earnings per common share	\$ 0.53	\$ 0.32	\$ 0.21	65.6%	\$ 0.45	\$ 0.76	\$ (0.31)	(40.8)%

NM – not meaningful

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	Change	% ⁽²⁾	2019	2018	Change	% ⁽²⁾
Operating: ⁽¹⁾								
Net sales:								
Oil (MBbls)	1,735	1,717	18	1.0%	4,896	5,012	(116)	(2.3)%
NGLs (MBbls)	283	318	(35)	(11.0)%	856	985	(129)	(13.1)%
Natural gas (MMcf)	10,606	7,939	2,667	33.6%	25,344	24,648	696	2.8%
Total oil equivalent (MBoe)	3,786	3,359	427	12.7%	9,976	10,106	(130)	(1.3)%
Average daily equivalent sales (Boe/day)	41,149	36,508	4,641	12.7%	36,543	37,017	(474)	(1.3)%
Average realized sales prices:								
Oil (\$/Bbl)	\$ 59.24	\$ 69.57	\$ (10.33)	(14.8)%	\$ 61.00	\$ 66.52	\$ (5.52)	(8.3)%
NGLs (\$/Bbl)	15.45	31.70	(16.25)	(51.3)%	18.07	28.91	(10.84)	(37.5)%
Natural gas (\$/Mcf)	2.23	2.85	(0.62)	(21.8)%	2.57	2.90	(0.33)	(11.4)%
Oil equivalent (\$/Boe)	34.56	45.32	(10.76)	(23.7)%	38.01	42.88	(4.87)	(11.4)%
Average per Boe (\$/Boe):								
Lease operating expenses	\$ 12.46	\$ 11.14	\$ 1.32	11.8%	\$ 13.13	\$ 10.87	\$ 2.26	20.8%
Gathering and transportation	1.57	1.72	(0.15)	(8.7)%	1.95	1.56	0.39	25.0%
Production costs	14.03	12.86	1.17	9.1%	15.08	12.43	2.65	21.3%
Production taxes	0.16	0.13	0.03	23.1%	0.13	0.13	—	—
DD&A	10.26	11.01	(0.75)	(6.8)%	11.09	11.36	(0.27)	(2.4)%
G&A expenses	2.67	4.76	(2.09)	(43.9)%	3.76	4.48	(0.72)	(16.1)%
	\$ 27.12	\$ 28.76	\$ (1.64)	(5.7)%	\$ 30.06	\$ 28.40	\$ 1.66	5.8%

(1) The conversion to barrels of oil equivalent and cubic feet equivalent were determined using the energy equivalency ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or NGLs (totals may not compute due to rounding). The conversion ratio does not assume price equivalency, and the price on an equivalent basis for oil, NGLs and natural gas may differ significantly.

(2) Variance percentages are calculated using rounded figures and may result in different figures for comparable data.

Volume measurements not previously defined:

MBbls — thousand barrels for crude oil, condensate or NGLs

MBoe — thousand barrels of oil equivalent

Mcf — thousand cubic feet

MMcf — million cubic feet

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

The Mobile Bay Acquisition will have an effect on our results of operations and these effects are not fully reflected in the following results of operations for the three months ended September 30, 2019 since the acquisition was not completed until the end of August 2019.

Revenues. Total revenues decreased \$21.2 million, or 13.8%, to \$132.2 million for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. Oil revenues decreased \$16.7 million, or 14.0%, NGLs revenues decreased \$5.7 million, or 56.6%, natural gas revenues increased \$1.0 million, or 4.6%, and other revenues increased \$0.1 million. The decrease in oil revenues was attributable to a 14.8% decrease in the average realized sales price to \$59.24 per barrel for the three months ended September 30, 2019 from \$69.57 per barrel for the three months ended September 30, 2018, partially offset by a 1.0% increase sales volumes. The decrease in NGLs revenues was attributable to a 51.3% decrease in the average realized sales price to \$15.45 per barrel for the three months ended September 30, 2019 from \$31.70 per barrel for the three months ended September 30, 2018 and an 11.0% decrease in sales volumes. The increase in natural gas revenues was attributable to a 33.6% increase in sales volumes, partially offset by a 21.8% decrease in the average realized price to \$2.23 per Mcf for the three months ended September 30, 2019 from \$2.85 per Mcf for the three months ended September 30, 2018. Overall, production volumes increased 12.7% on a Boe basis. The largest production increases for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 were from the Mobile Bay Acquisition, Ship Shoal 349 (Mahogany) field, Fairway field and Viosca Knoll 734 field. Offsetting the production increases were production decreases primarily from natural production declines and from increases in downtime, with the largest amounts related to weather and repair and maintenance issues at certain platforms and third-party pipelines. Our estimate of deferred production for the three months ended September 30, 2019 was approximately 5,500 Boe per day as compared to 4,100 Boe per day for the three months ended September 30, 2018.

Revenues from oil and NGLs as a percent of our total revenues were 81.0% for the three months ended September 30, 2019 compared to 84.4% for the three months ended September 30, 2018. Our average realized NGLs sales price as a percent of our average realized crude oil sales price decreased to 26.1% for the three months ended September 30, 2019 compared to 45.6% for the three months ended September 30, 2018. Revenues from the Mobile Bay Acquisition consist primarily of revenues from sales of natural gas and NGLs.

Lease operating expenses. Lease operating expenses, which include base lease operating expenses, workovers, and facilities maintenance, increased \$9.8 million, or 26.1%, to \$47.2 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018. On a component basis, base lease operating expenses increased \$5.6 million, workover expenses increased \$2.6 million and facilities maintenance expenses increased \$1.6 million. Base lease operating expenses increased primarily due to the Mobile Bay Acquisition, and to a lesser extent, increases in transportation and contract labor expenses at certain fields. The increase in workover expense was primarily due to project expenses at our Mahogany field, which were partially offset by lower project expenses incurred at other fields. The increase in facility maintenance expenses involved numerous fields and projects with the largest increase at our Matterhorn field.

Gathering and transportation. Gathering and transportation expenses increased \$0.2 million to \$6.0 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 primarily related to the acquisition of the Mobile Bay Acquisition.

Depreciation, depletion, amortization and accretion (“DD&A”). DD&A, which includes accretion for ARO, decreased to \$10.26 per Boe for the three months ended September 30, 2019 from \$11.01 per Boe for the three months ended September 30, 2018 primarily due to the Mobile Bay Acquisition, which the related incremental costs and related incremental reserves produced a lower rate per Boe than the historical full-cost pool rate per Boe. On a nominal basis, DD&A increased to \$38.8 million (or 5.1%) for the three months ended September 30, 2019 from \$37.0 million for the three months ended September 30, 2018. DD&A on a nominal basis increased primarily due to increased production. Factors affecting the DD&A rate are capital expenditures, sales of assets, future development costs and changes in proved reserves volumes.

General and administrative expenses (“G&A”). G&A was \$10.1 million for the three months ended September 30, 2019, decreasing 36.8% from \$16.0 million for the three months ended September 30, 2018. The decrease was primarily due to increased charges (credits) to counterparties related to joint interest arrangements and lower compensation expenses. G&A on a per Boe basis was \$2.67 per Boe for the three months ended September 30, 2019 compared to \$4.76 per Boe for the three months ended September 30, 2018.

Derivative gain. The three months ended September 30, 2019 reflects a \$5.8 million derivative gain primarily due to decreased crude oil future pricing used to value our derivative contracts at September 30, 2019 as compared to June 30, 2019, which increased the estimated fair value of our open crude oil contracts between the two measurement dates. For the three months ended September 30, 2018, we recorded a net gain of \$0.3 million from derivative contracts.

Interest expense, net. Interest expense, net, was \$14.4 million and \$10.7 million for the three months ended September 30, 2019 and 2018, respectively, which includes netting of interest income of \$2.7 million and \$0.9 million, respectively. During the three months ended September 30, 2019, interest income of \$1.9 million was recorded due to the distribution of funds related to the Apache lawsuit. During the three months ended September 30, 2018, a portion of our interest was recorded as offsets to carrying value adjustments on the balance sheet under Accounting Standard Codification Topic 470-60, *Troubled Debt Restructuring* (“ASC 470-60”), which lowered reported interest expense for the three months ended September 30, 2018 and affects the comparability.

Income tax (benefit) expense. Our income tax benefit for the three months ended September 30, 2019 was \$55.5 million and our income tax expense for the three months ended September 30, 2018 was \$0.1 million. We partially reversed a valuation allowance related to our deferred tax assets resulting in a non-cash tax benefit for the three months ended September 30, 2019. Immaterial deferred income tax expense was recorded for the three months ended September 30, 2018 due to dollar-for-dollar offsets by our valuation allowance. Our effective tax rate using book pre-tax income was not meaningful for either period. See *Financial Statements – Note 10 – Income Taxes* under Part I, Item 1 of this Form 10-Q for additional information.

Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

The Mobile Bay Acquisition will have an effect on our results of operations and these effects are not fully reflected in the following results of operations for the nine months ended September 30, 2019 since the acquisition was not completed until the end of August 2019.

Revenues. Total revenues decreased \$54.3 million, or 12.4%, to \$383.0 million for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. Oil revenues decreased \$34.7 million, or 10.4%, NGLs revenues decreased \$13.0 million, or 45.7%, natural gas revenues decreased \$6.4 million, or 8.9%, and other revenues decreased \$0.1 million. The decrease in oil revenues was attributable to an 8.3% decrease in the average realized sales price to \$61.00 per barrel for the nine months ended September 30, 2019 from \$66.52 per barrel for the nine months ended September 30, 2018 and a 2.3% decrease in sales volumes. The decrease in NGLs revenues was attributable to a 37.5% decrease in the average realized sales price to \$18.07 per barrel for the nine months ended September 30, 2019 from \$28.91 per barrel for the nine months ended September 30, 2018 and a 13.1% decrease in sales volumes. The decrease in natural gas revenues was attributable to an 11.4% decrease in the average realized price to \$2.57 per Mcf for the nine months ended September 30, 2019 from \$2.90 per Mcf for the nine months ended September 30, 2018 and partially offset by a 2.8% increase in sales volumes. Overall, production volumes decreased 1.3% on a Boe basis. The largest production increases for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 were from the Mobile Bay Acquisition, Mahogany field, Ship Shoal 028 field and Fairway field. Offsetting the production increases were production decreases primarily from natural production declines and from increases in downtime, with the largest amounts related to weather and repair and maintenance issues at certain platforms and pipelines. Our estimate of deferred production for the nine months ended September 30, 2019 was approximately 5,900 Boe per day as compared to 4,300 Boe per day for the nine months ended September 30, 2018.

Revenues from oil and NGLs as a percent of our total revenues were 82.0% for the nine months ended September 30, 2019 compared to 82.8% for the nine months ended September 30, 2018. Our average realized NGLs sales price as a percent of our average realized crude oil sales price decreased to 29.6% for the nine months ended September 30, 2019 compared to 43.5% for the nine months ended September 30, 2018. Revenues from the Mobile Bay Acquisition consist primarily of revenues from sales of natural gas and NGLs.

Lease operating expenses. Lease operating expenses, which include base lease operating expenses, workovers, and facilities maintenance, increased \$21.1 million, or 19.2%, to \$131.0 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. On a component basis, base lease operating expenses increased \$8.9 million, facilities maintenance expense increased \$7.9 million and workover expenses increased \$4.3 million. Base lease operating expenses increased primarily due to the Mobile Bay Acquisition and to the addition of the Heidelberg field, acquired in April 2018. In addition, base lease operating expenses increased due to lower charges to joint interest partners at our Mississippi Canyon 243 ("Matterhorn") field, which are recorded as credits to expense. The increase in facility maintenance expenses involved numerous fields and projects with the largest increase at our Mahogany field. The increase in workover expense was primarily due to 2019 projects at our Mahogany field.

Gathering and transportation. Gathering and transportation expenses increased \$3.7 million, or 23.4%, to \$19.4 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase was primarily related to rate changes from certain third-party pipelines which became effective during the nine months ended September 30, 2019.

Depreciation, depletion, amortization and accretion. DD&A, which includes accretion for ARO, decreased to \$11.09 per Boe for the nine months ended September 30, 2019 from \$11.36 per Boe for the nine months ended September 30, 2018 primarily due to the Mobile Bay Acquisition, which the related incremental costs and related incremental reserves produced a lower rate per Boe than the previous full-cost pool rate per Boe. On a nominal basis, DD&A decreased to \$110.7 million (or 3.6%) for the nine months ended September 30, 2019 from \$114.8 million for the nine months ended September 30, 2018. DD&A on a nominal basis decreased primarily due to lower production. Factors affecting the DD&A rate are capital expenditures, sales of assets, future development costs and changes in proved reserves volumes.

General and administrative expenses. G&A was \$37.5 million for the nine months ended September 30, 2019, decreasing 17.0% from \$45.2 million for the nine months ended September 30, 2018. The decrease was largely due to increased charges (credits) to counterparties related to joint interest arrangements, lower compensation expenses and lower premiums paid for surety bonds. G&A on a per Boe basis was \$3.76 per Boe for the nine months ended September 30, 2019 compared to \$4.48 per Boe for the nine months ended September 30, 2018.

Derivative loss. The nine months ended September 30, 2019 reflects a \$41.2 million derivative loss primarily related to increased crude oil future pricing used to value our derivative contracts at September 30, 2019 as compared to December 31, 2018, which decreased the estimated fair value of our open crude oil contracts between the two measurement dates. For the nine months ended September 30, 2018, we recorded a net loss of \$5.9 million from derivative contracts.

Interest expense, net. Interest expense, net, was \$42.9 million and \$33.5 million for the nine months ended September 30, 2019 and 2018, respectively, which includes netting of interest income of \$7.5 million and \$1.6 million, respectively. During the nine months ended September 30, 2019, we recorded interest income of \$4.5 million related to income tax refunds and interest income of \$1.9 million due to the distribution of funds related to the Apache lawsuit. During the nine months ended September 30, 2018, a portion of our interest was recorded as offsets to carrying value adjustments on the balance sheet under ASC 470-60, which lowered reported interest expense and affects the comparability.

Income tax (benefit) expense. Our income tax benefit for the nine months ended September 30, 2019 was \$67.0 million and our income tax expense for the nine months ended September 30, 2018 was \$0.4 million. During the nine months ended September 30, 2019, we partially reversed a valuation allowance related to our deferred tax assets and we reversed a liability related to an uncertain tax position that was effectively settled with the IRS, resulting in a non-cash tax benefit. Immaterial deferred income tax expense was recorded for the nine months ended September 30, 2018 due to dollar-for-dollar offsets by our valuation allowance. Our effective tax rate using book pre-tax income was not meaningful for either period. See *Financial Statements – Note 10 – Income Taxes* under Part I, Item 1 of this Form 10-Q for additional information.

Liquidity and Capital Resources

Our primary liquidity needs are to fund capital and operating expenditures and strategic acquisitions to allow us to replace our oil and natural gas reserves, repay and service outstanding borrowings, operate our properties and satisfy our AROs. We have funded such activities in the past with cash on hand, net cash provided by operating activities, sales of property, securities offerings and bank borrowings and expect to continue to do so in the future.

Credit Agreement. On October 18, 2018, we entered into the Credit Agreement, which matures on October 18, 2022. As of September 30, 2019, we had \$105.0 million borrowings outstanding under the Credit Agreement and \$7.2 million of letters of credit issued under the Credit Agreement. Availability under our Credit Agreement as of September 30, 2019 was \$137.8 million.

Availability under our Credit Agreement is subject to a semi-annual redetermination of our borrowing base, which was initially set at \$250.0 million and has not changed. The next redetermination is scheduled to be completed around November 15, 2019. Any redetermination by our lenders to change our borrowing base will result in a similar change in the availability under our Credit Agreement. The Credit Agreement is secured and collateralized by substantially all of our oil and natural gas properties and certain personal property.

We currently have six lenders under our Credit Agreement, with commitments ranging from \$25.0 million to \$62.5 million for the current borrowing base. While we have not experienced, nor do we anticipate, any difficulties in obtaining funding from any of these lenders at this time, any lack of or delay in funding by members of our banking group could negatively impact our liquidity position. See *Financial Statements – Note 2 – Long-Term Debt* under Part I, Item 1 of this Form 10-Q for additional information.

Senior Second Lien Notes. As of September 30, 2019, we had outstanding \$625.0 million principal of Senior Second Lien Notes with an interest rate of 9.75% per annum that matures on November 1, 2023. The Senior Second Lien Notes are secured by a second-priority lien on all of our assets that are secured under the Credit Agreement. See *Financial Statements – Note 2 – Long-Term Debt* under Part I, Item 1 of this Form 10-Q for additional information.

Debt Covenants. The Credit Agreement and Senior Second Lien Notes contain financial covenants calculated as of the last day of each fiscal quarter, which include thresholds on financial ratios, as defined in the respective Credit Agreement and the indenture related to the Senior Second Lien Notes. We were in compliance with all applicable covenants of the Credit Agreement and the Senior Second Lien Notes indenture as of September 30, 2019.

Bureau of Ocean Energy Management ("BOEM") Matters. As of the filing date of this Form 10-Q, we are in compliance with our financial assurance obligations to the BOEM and have no outstanding BOEM orders related to financial assurance obligations. We and other offshore Gulf of Mexico producers may, in the ordinary course of business, receive requests or demands in the future for financial assurances from the BOEM.

Surety Bond Collateral. Some of the sureties that provide us surety bonds used for supplemental financial assurance purposes have requested and received collateral from us, and may request additional collateral from us in the future, which could be significant and materially impact our liquidity. In addition, pursuant to the terms of our agreements with various sureties under our existing bonds or under any additional bonds we may obtain, we are required to post collateral at any time, on demand, at the surety's discretion. No additional demands were made to us by sureties during 2019 as of the filing date of this Form 10-Q and we currently do not have surety bond collateral outstanding.

The issuance of any additional surety bonds or other security to satisfy future BOEM orders, collateral requests from surety bond providers, and collateral requests from other third parties may require the posting of cash collateral, which may be significant, and may require the creation of escrow accounts.

Cash Flow and Working Capital. Net cash provided by operating activities for the nine months ended September 30, 2019 and 2018 was \$186.6 million and \$294.9 million, respectively. Our combined average realized sales price per Boe decreased by 11.4% for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, which caused total revenues to decrease \$44.7 million. Production volumes decreased by 1.3% measured on a BOE basis primarily from increases in downtime, which caused revenues to decrease by \$9.4 million. In addition, operating expenses impacting operating cash flows increased by \$18.5 million primarily for base lease operating expense, workover projects and facility projects.

Other items affecting operating cash flows were an increase of \$15.8 million for the nine months ended September 30, 2019 in the balance of cash advances received from joint venture partners, primarily from Monza, compared to an increase of \$27.0 million for the nine months ended September 30, 2018; ARO settlements were \$15.0 million lower between the two periods; cash derivative receipts, net, increased \$20.7 million between the two periods primarily due to derivative oil contracts; and a tax refund of \$16.9 million was received during the nine months ended September 30, 2019. Working capital items accounted for the balance of the change in net cash provided by operating activities.

Net cash used in investing activities primarily represents our acquisition of and investments in oil and gas properties and equipment partially offset by sales of such assets. Net cash used in investing activities for the nine months ended September 30, 2019 and 2018 was \$261.2 million and \$45.7 million, respectively. Our capital expenditures for the nine months ended September 30, 2019 were split approximately 40% for investments in the deep waters of the Gulf of Mexico and approximately 60% for investments on the conventional shelf of the Gulf of Mexico. During the nine months ended September 30, 2019, the cash expenditure for the Mobile Bay Acquisition was \$167.7 million, which is described in the Overview section of this Item. During the nine months ended September 30, 2018, the purchase of the interest in the Heidelberg field was consummated for \$16.8 million and the sale of our overriding royalty interests in the Permian Basin fields resulted in net proceeds of \$50.5 million.

Net cash provided by financing activities for the nine months ended September 30, 2019 was \$83.1 million. The net cash provided for the nine months ended September 30, 2019 included borrowings of \$150.0 million under the Credit Agreement that were made to fund a portion of the Mobile Bay Acquisition, and repayments of \$66.0 million were made reducing the borrowings outstanding under the Credit Agreement. Net cash used by financing activities for the nine months ended September 30, 2018 was \$9.1 million primarily for interest payments on certain debt reported as financing activities under ASC 470-60.

Derivative Financial Instruments. From time to time, we use various derivative instruments to manage a portion of our exposure to commodity price risk from sales of oil and natural gas. During 2018, we entered into derivative contracts for crude oil and natural gas for a portion of our future production. See *Financial Statements – Note 6 – Derivative Financial Instruments* under Part I, Item 1 of this Form 10-Q for additional information.

Insurance Coverage. We currently carry multiple layers of insurance coverage in our Energy Package (defined as certain insurance policies relating to our oil and gas properties which include named windstorm coverage) covering our operating activities, with higher limits of coverage for higher valued properties and wells. The current policy limits for well control range from \$30.0 million to \$500.0 million depending on the risk profile and contractual requirements. With respect to coverage for named windstorms, we have a \$162.5 million aggregate limit covering all of our higher valued properties, and \$150 million for all other properties subject to a retention of \$30.0 million. Included within the \$162.5 million aggregate limit is total loss only ("TLO") coverage on our Mahogany platform, which has no retention. The operational and named windstorm coverages are effective for one year beginning June 1, 2019. Coverage for pollution causing a negative environmental impact is provided under the well control and other sections within the policy.

Our general and excess liability policies are effective for one year beginning May 1, 2019 and provide for \$300.0 million of coverage for bodily injury and property damage liability, including coverage for liability claims resulting from seepage, pollution or contamination. With respect to the Oil Spill Financial Responsibility requirement under the Oil Pollution Act of 1990, we are required to evidence \$150.0 million of financial responsibility to the BSEE and we have insurance coverage of such amount.

Although we were able to renew our general and excess liability policies effective on May 1, 2019, and our Energy Package effective on June 1, 2019, our insurers may not continue to offer this type and level of coverage to us in the future, or our costs may increase substantially as a result of increased premiums and there could be an increased risk of uninsured losses that may have been previously insured, all of which could have a material adverse effect on our financial condition and results of operations. We are also exposed to the possibility that in the future we will be unable to buy insurance at any price or that if we do have claims, the insurers will not pay our claims. We do not carry business interruption insurance.

Capital Expenditures. The level of our investment in oil and natural gas properties changes from time to time depending on numerous factors, including the prices of crude oil, NGLs and natural gas, acquisition opportunities, available liquidity and the results of our exploration and development activities. During the nine months ended September 30, 2018, we received reimbursement of capital expenditures from Monza for projects in the JV Drilling Program, some of which had incurred costs during 2017. These reimbursements related to 2017 are reported in a separate line in the table below. The following table presents our capital expenditures for exploration, development and other leasehold costs (in thousands):

	Nine Months Ended September 30,	
	2019	2018
Exploration (1)	\$ 15,262	\$ 27,406
Development (1)	77,273	41,071
Mobile Bay Acquisition	169,831	—
Heidelberg field	—	16,782
Reimbursement from Monza for 2017 expenditures	—	(14,075)
Seismic and other	13,528	4,759
Investments in oil and gas property/equipment	<u>\$ 275,894</u>	<u>\$ 75,943</u>

(1) Reported geographically in the subsequent table.

The following table presents our exploration and development capital expenditures geographically in the Gulf of Mexico (in thousands):

	Nine Months Ended September 30,	
	2019	2018
Conventional shelf	\$ 56,426	\$ 49,965
Deepwater	36,109	18,512
Exploration and development capital expenditures	<u>\$ 92,535</u>	<u>\$ 68,477</u>

The capital expenditures reported in the above two tables are included within *Oil and natural gas properties and other, net* on the Consolidated Balance Sheets. The capital expenditures reported within the Investing section of the Consolidated Statements of Cash Flows include adjustments to report payments related to capital expenditures.

Our capital expenditures for the nine months ended September 30, 2019 were financed by cash flow from operations, cash on hand and borrowings under the Credit Agreement.

During the nine months ended September 30, 2019, we completed the Viosca Knoll 823 ("Virgo") A-13 well, which began producing during March 2019, the South Timbalier 320 A-3 well, which began producing in July 2019, and the Mississippi Canyon 800 ("Gladden") SS-2 well, which began producing in September. All of these wells are in the JV Drilling Program. We did not drill any dry holes during the nine months ended September 30, 2019. During the nine months ended September 30, 2018, we completed three wells.

Exploration/Development Activities. As of October 15, 2019, we had completed the Ship Shoal 028 #41 well and were in completion operations on the East Cameron 321 B-8 ST well. Both of these wells are in the JV Drilling Program. In addition, we were performing completion operations on the Mahogany A-6 ST1 well, which is not in the JV Drilling Program.

Offshore Lease Awards. During the nine months ended September 30, 2019, we were successful in acquiring leases on 15 blocks (eight deepwater and seven shallow water) from the Gulf of Mexico Lease Sale 252 held by the BOEM on March 20, 2019, and these leases have been officially assigned to us. These 15 blocks cover approximately 73,500 acres and we paid approximately \$3.5 million for all of the awarded leases combined, which reflects a 100% working interest in the acreage. In addition, our bids were accepted on two shallow water blocks, Ship Shoal 332 and 367, in the Gulf of Mexico Lease Sale 253 held by the BOEM on August 21, 2019. The two blocks cover approximately 10,300 acres and we paid approximately \$0.3 million for the leases, which reflect a 100% working interest in the acreage, and we expect to be awarded the leases by the BOEM once certain administrative matters are executed.

Capital Expenditure Forecast. Our 2019 capital expenditure forecast is estimated to be approximately \$130 to \$150 million, which excludes the Mobile Bay Acquisition described in the Overview section of this Item and excludes any additional potential acquisitions and plugging and abandonment. The forecast incorporates the shared investments in certain wells included in the JV Drilling Program. We strive to maintain flexibility in our capital expenditure projects and if prices remain at current levels or improve, we may increase our investments.

Income Taxes. During October 2019, we received tax refunds of \$34.9 million and accrued interest of \$4.5 million, which substantially settled the refund claims and related interest income. We do not expect to make any significant income tax payments during 2019. See *Financial Statements – Note 10 – Income Taxes* under Part I, Item 1 of this Form 10-Q for additional information.

Asset Retirement Obligations. Each quarter, we review and revise our ARO estimates. Our ARO as of September 30, 2019 and December 31, 2018 were \$344.5 million and \$310.1 million, respectively. The Mobile Bay Acquisition increased ARO by \$21.6 million, of which all was classified as long term. Our plans include spending approximately \$13.0 million in 2019 for ARO compared to \$28.6 million spent on ARO in 2018. As our ARO estimates are for work to be performed in the future, and in the case of our non-current ARO, extend from one to many years in the future, actual expenditures could be substantially different than our estimates. See *Risk Factors*, under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 for additional information.

Contractual Obligations. Updated information on certain contractual obligations is provided in *Financial Statements – Note 2 – Long-Term Debt and Note 5 – Asset Retirement Obligations* under Part I, Item 1 of this Form 10-Q. As of September 30, 2019, drilling rig commitments, excluding ARO drilling rig commitments, were approximately \$4.7 million. Except for scheduled utilization, other contractual obligations as of September 30, 2019 did not change materially from the disclosures in *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, under Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018.

Critical Accounting Policies

Our significant accounting policies are summarized in *Financial Statements and Supplementary Data* under Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2018. See *Financial Statements – Note 1 – Basis of Presentation* under Part I, Item 1 of this Form 10-Q for additional information.

Recent Accounting Pronouncements

See *Financial Statements – Note 1 – Basis of Presentation* under Part I, Item 1, of this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the nine months ended September 30, 2019 did not change materially from the disclosures in *Quantitative and Qualitative Disclosures About Market Risk* under Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018. As such, the information contained herein should be read in conjunction with the related disclosures in our Annual Report on Form 10-K for the year ended December 31, 2018.

Commodity Price Risk. Our revenues, profitability and future rate of growth substantially depend upon market prices of crude oil, NGLs and natural gas, which fluctuate widely. Crude oil, NGLs and natural gas price declines have adversely affected our revenues, net cash provided by operating activities and profitability in the past and could have impacts on our business in the future. During 2018, we entered into derivative crude oil contracts related to a portion of our estimated future production. We historically have not designated our commodity derivatives as hedging instruments and any future derivative commodity contracts are not expected to be designated as hedging instruments. Use of these contracts may reduce the effects of volatile crude oil and natural gas prices, but they also may limit future income from favorable price movements. See *Financial Statements – Note 6 – Derivative Financial Instruments* under Part I, Item 1 of this Form 10-Q for additional information.

Interest Rate Risk. As of September 30, 2019, we had \$105.0 million borrowings outstanding under our Credit Agreement and were subject to the variable London Interbank Offered Rate and the Applicable Margin. We did not have any derivative instruments related to interest rates.

Item 4. Controls and Procedures

We have established disclosure controls and procedures designed to ensure that material information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC and that any material information relating to us is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate to allow timely decisions regarding required disclosures. In designing and evaluating our disclosure controls and procedures, our management recognizes that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives. In reaching a reasonable level of assurance, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Exchange Act Rule 13a-15(b), we performed an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on that evaluation, our CEO and CFO have each concluded that as of September 30, 2019, our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that our controls and procedures are designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended September 30, 2019, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1. Legal Proceedings**

See *Financial Statements – Note 12 – Contingencies* under Part I Item 1 of this Form 10-Q for information on various legal proceedings to which we are a party or our properties are subject.

Item 1A. Risk Factors

Investors should carefully consider the risk factors included under Part I, Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the year ended December 31, 2018, together with all of the other information included in this document, in our Annual Report on Form 10-K and in our other public filings, press releases and discussions with our management.

The potential effects of crude oil prices are discussed under Part I, Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the year ended December 31, 2018 and also discussed in the Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the *Overview* section of this Form 10-Q.

Notwithstanding the matters discussed herein, there have been no material changes in our risk factors as previously disclosed in Part I, Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of W&T Offshore, Inc. (Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed February 24, 2006 (File No. 001-32414))
3.2	Amended and Restated Bylaws of W&T Offshore, Inc. (Incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1, filed May 3, 2004 (File No. 333-115103))
3.3	Certificate of Amendment to the Amended and Restated Articles of Incorporation of W&T Offshore, Inc. (Incorporated by reference to Exhibit 3.3 of the Company's Quarterly Report on Form 10-Q, filed July 31, 2012 (File No. 001-32414))
3.4	Certificate of Amendment to the Amended and Restated Articles of Incorporation of W&T Offshore, Inc., dated as of September 6, 2016. (Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed September 6, 2016 (File No. 001-32414))
3.5	Second Amended and Restated Bylaws of W&T Offshore, Inc. (Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed March 22, 2019 (File No. 001-32414))
10.1	Purchase and Sale Agreement, dated as of January 1, 2019, between Exxon Mobil Corporation, Mobil Oil Exploration & Producing Southeast Inc., XH, LLC, Exxon Mobile Bay Limited Partnership, ExxonMobil U.S. Properties Inc. and W&T Offshore, Inc. (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q, filed August 1, 2019 (File No. 001-32414))
10.2 *†	Form of Executive Annual Incentive Award Agreement for Fiscal Year 2019.
10.3 *†	Form of 2019 Executive Long Term Incentive Plan Agreement.
31.1*	Section 302 Certification of Chief Executive Officer.
31.2*	Section 302 Certification of Chief Financial Officer.
32.1*	Section 906 Certification of Chief Executive Officer and Chief Financial Officer.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Schema Document.
101.CAL*	XBRL Calculation Linkbase Document.
101.DEF*	XBRL Definition Linkbase Document.
101.LAB*	XBRL Label Linkbase Document.
101.PRE*	XBRL Presentation Linkbase Document.

* Filed or Furnished herewith.

† Management Contract or Compensatory Plan or Arrangement, filed herewith

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on October 31, 2019.

W&T OFFSHORE, INC.

By: /s/ Janet Yang
Janet Yang
Executive Vice President and Chief Financial Officer
(Principal Financial Officer), duly authorized to sign on behalf of the registrant

W&T OFFSHORE, INC.
AMENDED AND RESTATED INCENTIVE COMPENSATION PLAN

Executive Annual Incentive Award Agreement
For Fiscal Year 2019

This potential Annual Incentive Award (the "*Award*") is granted on June 3, 2019 (the "*Award Date*"), by W&T Offshore, Inc., a Texas corporation (the "*Company*") to the executive whose name appears in the footer below ("*Awardee*" or "*you*").

WHEREAS, the Company in order to induce you to enter into and to continue to dedicate service to the Company and to materially contribute to the success of the Company agrees to grant you this Award; and

WHEREAS, this Award is granted to you pursuant to the W&T Offshore, Inc. Amended and Restated Incentive Compensation Plan, as may be amended from time to time (the "*Plan*"), and the following terms and conditions of this agreement (the "*Agreement*") for the Company's 2019 fiscal year.

NOW, THEREFORE, in consideration of and mutual covenants set forth herein and for other valuable consideration hereinafter set forth, the Award is hereby granted on the following terms and conditions:

1. **Terms and Conditions.** The Award is subject to all the terms and conditions of the Plan. All capitalized terms not defined in this Agreement shall have the meaning stated in the Plan. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control unless this Agreement expressly states that an exception to the Plan is being made.

2. **Definitions.** For purposes of this Agreement, the following terms shall have the meanings stated below.

(a) "**Base Salary**" means the base salary you received as an employee during the Performance Period, (i) including any amounts deferred pursuant to an election under any 401(k) plan, pre-tax premium plan, deferred compensation plan, or flexible spending account sponsored by the Company or any Subsidiary, and any overtime paid to you as an offshore employee required by your standard work schedule, but (ii) *excluding* any incentive compensation, employee benefit, or other benefit paid or provided under any incentive, bonus or employee benefit plan sponsored by the Company or any Subsidiary, all overtime paid other than as specified in (i) above and/or any excellence award, gains upon stock option exercises, restricted stock grants or vesting, moving or travel expense reimbursement, sign on bonus, imputed income, or tax gross-ups, without regard to whether the payment or gain is taxable income to you.

(b) **“Disability”** means your permanent disability as defined in your Individual Agreement. In the event that there is no existing written Individual Agreement between you and the Company or if any such agreement does not define Disability, the term **“Disability”** shall mean: (i) a physical or mental impairment of sufficient severity that, in the sole opinion of the Company, (A) you are unable to continue performing the duties assigned to you prior to such impairment or (B) your condition entitles you to disability benefits under any insurance or employee benefit plan of the Company or its Subsidiaries, and (ii) the impairment or condition is cited by the Company as the reason for your termination; *provided, however*, that in all cases, the term Disability shall be applied and interpreted in compliance with section 409A of the Code and the regulations thereunder.

(c) **“Individual Agreement”** means any employment or severance agreement, if any, between you and the Company or any Subsidiary.

(d) **“Performance Goals”** means the performance criteria established by the Committee pursuant to Section 8 of the Plan and set forth in Appendix A attached hereto.

(e) **“Performance Period”** means the Company’s complete fiscal year ending December 31, 2019.

(f) **“Total Performance Score”** means the aggregate number of points, expressed as a percentage, you are assigned as a result of the Committee’s review, analysis and certification of the achievement of the applicable Performance Goals set forth in Appendix A attached hereto for the Performance Period. Your Total Performance Score, shall be expressed as a percentage set forth using the chart below:

Total Performance Score in Points	Total Performance Score Expressed as a Percentage
200	200%
100	100%
50	50%
0	0%

(g) **“Individual Performance Multiplier”** means a number based on your Individual Performance Score (defined below). Your Individual Performance Score corresponds to the Company’s view of your individual performance and contribution to the success of the Company, on a scale of one to five, as determined by your supervisor and subject to the review of the Chief Executive Officer and the Compensation Committee (the **“Individual Performance Score”**). It is intended, but not required, that the Individual Performance Scores be provided in tenths, e.g., 4.1.

Individual Performance Score	1.0	2.0	2.1	3.0	4.0	5.0
Individual Performance Multiplier	0	0	0.10	0.53	1.00	1.90

An Individual Performance Score of 2.0 or less results in an Individual Performance Multiplier of zero and therefore no Award whatsoever is earned. For the avoidance of doubt, you must have an Individual Performance Score of at least 2.1 in order to earn an Award.

(h) “*Annual Incentive Award Pool*” means the total dollar amount approved by the Compensation Committee to fund the Annual Incentive Award Program.

(i) “*Annual Incentive Award Pool Adjustment Factor*” means the Annual Incentive Award Pool, divided by the sum of amount obtained by multiplying the following four numbers for all employees: Base Salary, Target Award Percentage, Total Performance Score (expressed as a percentage), and Individual Performance Multiplier. The Annual Incentive Award Pool Adjustment Factor shall be expressed as a percentage and will not exceed 100%.

3. Effect of Award Agreement. This Award is subject to all of the terms and conditions of the Agreement and the Plan; all decisions or interpretations of the Agreement and the Plan by the Committee are binding, conclusive and final.

4. Target Award Percentage. Your award percentage is __% (“*Target Award Percentage*”).

5. Maximum Performance Levels. The maximum Total Performance Score you may be assigned shall not exceed 200.

6. Award Calculation.

(a) Subject to the terms and conditions set forth in the Plan and this Agreement, including, without limitation, Sections 5 and 8, your Award is equal to the dollar amount obtained by multiplying the following five numbers: your Base Salary, Target Award Percentage, Total Performance Score (expressed as a percentage), Individual Performance Multiplier, and Annual Incentive Award Pool Adjustment Factor.

(i) The Total Performance Score will be calculated using straight-line interpolation.

(ii) Any Award that is earned will be paid in cash as soon as practicable after the Committee has certified the applicable Performance Goals were achieved for the Performance Period, but in no event later than the seventy-fifth (75th) day following the date the Performance Period ends. However, notwithstanding anything within this Agreement to the contrary, the Company will not pay any Awards unless and until the following financial condition is achieved on or before December 31, 2021: Adjusted EBITDA less Interest Expense Incurred, as reported by the Company in its announced Earnings Release with respect to the end of any fiscal quarter plus the three preceding fiscal quarters, exceeds \$200 million. In such case the cash payment will be made within 30 days following the achievement of this financial condition, but subject to all the terms of this Agreement, including but not limited to Sections 7(b) and 8; provided that the Committee in its sole discretion retains the right to pay any Award otherwise earned regardless of whether such financial condition is achieved.

(iii) You must be employed prior to September 30 within the Performance Period in order to be eligible to participate in the Plan for the Performance Period.

(b) Subject to (i) and (ii) above, as an example calculation, an individual with a Base Salary of \$100,000, an Target Award Percentage of 30%, a Total Performance Score of 90, an Individual Performance Score of 4.0 (resulting in an Individual Performance Multiplier of 1.0), and Annual Incentive Award Pool Adjustment Factor of 100% shall receive the following award:

$$\$27,000 = (\$100,000) \times (0.3) \times (0.9) \times (1.0) \times (1.0)$$

7. Effect of Termination of Employment. Notwithstanding any provisions to the contrary below in the remainder of this Section 7, in the event of any inconsistency between this Section 7 and any written Individual Agreement you may have, the terms of such an Individual Agreement will control. In the event you do not have an Individual Agreement or your Individual Agreement does not address the treatment of Annual Incentive Awards under the Plan, and your employment is terminated at any time on or after the Award Date and before the Award is paid, your Award will be treated as follows:

(a) Death or Disability. If your termination of employment is a result of your death or Disability, as determined by the Company in its sole and complete discretion, you will receive a pro-rata Award, if an Award is payable for the Performance Period, based on your Base Salary, Award Percentage and Individual Performance Multiplier as well as the Total Performance Score and Annual Incentive Award Pool Adjustment Factor applicable to the Performance Period (the “*Pro-Rata Award*”). Subject to Section 6(a)(ii), you, your beneficiaries, or your estate, as applicable, will be paid in cash as soon as practicable after the Committee has certified the applicable Performance Goals were achieved for the Performance Period, but in no event later than the seventy-fifth (75th) day following the date the Performance Period ends; *provided, however*, that you must have been employed with the Company for a minimum of 90 days during the Performance Period in order to be eligible for a Pro-Rata Award described in this Section 7(a).

(b) Terminations other than Death or Disability. Unless your termination of employment is a result of your death or Disability, you must be employed by the Company or a Subsidiary on the date Awards are paid in order to be eligible to receive payment of an Award. You have no vested interest in the Award prior to the Award actually being paid to you by the Company. If your employment with the Company or a Subsidiary terminates for any reason other than your death or Disability, whether your termination is voluntary or involuntary, with or without cause, you will not be eligible to receive payment of any Award for the Performance Period.

8. Right of the Committee. The Committee has the right to increase, reduce or eliminate your Award for any reason regardless of the amount of your Total Performance Score or Individual Performance Multiplier achieved.

9. Right of the Company and Subsidiaries to Terminate Services. Nothing in this Agreement confers upon you the right to continue in the employ of the Company or any Subsidiary, or interfere in any way with the rights of the Company or any Subsidiary to terminate your employment at any time, with or without cause.

10. Effect of Transfer to New Position during the Performance Period. In the event that you are transferred to a new position with the Company or a Subsidiary during the Performance Period that confers upon you a new employment status in all or any significant aspect of your employment with the Company or a Subsidiary (including, but not limited to, a new title, rank, Base Salary, authority, duties, or other similar employment element) that is dissimilar from the position you hold upon the Award Date, the Committee has the sole discretion to determine whether or not such new position shall necessitate one or more of the following actions: (a) amending this Agreement, including, but not limited to, an amendment to the Performance Goals or the Target Award Percentage, (b) terminating this Agreement and any potential Award for the applicable Performance Period, (c) pro-rating your Award to reflect the number of days you actually spent in active service in your previous position, or (d) making such other adjustments as the Committee deems appropriate to reflect your transfer to a new position; *provided, however*, that the Committee may determine in its sole discretion that no adjustment is necessary to this Agreement or Award.

11. Withholding Taxes. The Company may require you to pay to the Company (or the Company's Subsidiary if you are an employee of a Subsidiary of the Company), an amount the Company deems necessary to satisfy its (or its Subsidiary's) current or future obligation to withhold federal, state or local income or other taxes that you incur as a result of the Award. With respect to any such required tax withholding, the Company shall withhold from the payment to be issued to you under this Agreement the amount necessary to satisfy the Company's obligation to withhold taxes.

12. Furnish Information. You agree to furnish to the Company all information requested by the Company to enable it to comply with any reporting or other requirements imposed upon the Company by or under any applicable statute or regulation.

13. No Liability for Good Faith Determinations. The Company, the Committee and the members of the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Award granted hereunder.

14. Execution of Receipts and Releases. Any payment of cash to you, or to your legal representative, heir, legatee or distributee, in accordance with the provisions hereof, shall, to the extent thereof, be in full satisfaction of all claims of such Persons hereunder. The Company may require you or your legal representative, heir, legatee or distributee, as a condition precedent to such payment, to execute a release and receipt therefor in such form as the Company shall determine.

15. Notice. All notices required or permitted under this Agreement must be in writing and personally delivered or sent by mail and shall be deemed to be delivered on the date on which it is actually received by the person to whom it is properly addressed or if earlier the date it is sent via certified United States mail.

16. Waiver of Notice. Any person entitled to notice hereunder may waive such notice in writing.

17. Information Confidential. As partial consideration for the granting of the Award hereunder, you hereby agree to keep confidential all information and knowledge, except that which has been disclosed in any public filings required by law, that you have relating to the terms and conditions of this Agreement; *provided, however*, that such information may be disclosed as required by law and may be given in confidence to your spouse and tax and financial advisors. In the event any breach of this promise comes to the attention of the Company, it shall take into consideration that breach in determining whether to recommend the grant of any future similar award to you, as a factor weighing against the advisability of granting any such future award to you.

18. Nontransferability. Neither this Agreement nor this Award subject to this Agreement shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by your creditors or your beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to this Agreement shall be exercisable during your lifetime only by yourself or, if necessary, your guardian or legal representative.

19. Successors. This Agreement shall be binding upon you, your legal representatives, heirs, legatees and distributees, and upon the Company, its successors and assigns.

20. Severability. If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

21. Amendment. Subject to Section 8, the Committee may amend this Agreement at any time; *provided, however*, that no such amendment may adversely affect your rights under this Agreement without your consent, except to the extent such amendment is reasonably determined by the Committee, in its sole discretion, to be necessary to comply with applicable law or to prevent a detrimental accounting impact. No amendment or addition to this Agreement shall be effective unless in writing.

22. Headings. The titles and headings of Sections are included for convenience of reference only and are not to be considered in construction of the provisions hereof.

23. Governing Law. All questions arising with respect to the provisions of this Agreement shall be determined by application of the laws of Texas, without giving any effect to any conflict of law provisions thereof, except to the extent Texas state law is preempted by federal law.

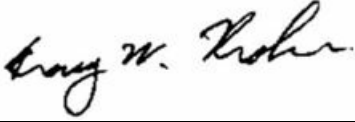
24. Consent to Texas Jurisdiction and Venue. You hereby consent and agree that state courts located in Harris County, Texas and the United States District Court for the Southern District of Texas each shall have personal jurisdiction and proper venue with respect to any dispute between you and the Company arising in connection with the Award or this Agreement. In any dispute with the Company, you will not raise, and you hereby expressly waive, any objection or defense to any such jurisdiction as an inconvenient forum.

25. The Plan. This Agreement is subject to all the terms, conditions, limitations and restrictions contained in the Plan.

26. Clawback. To the extent required by applicable law or any applicable securities exchange listing standards, or as otherwise determined by the Committee, this Award and amounts or shares paid or payable pursuant to or with respect to this Award shall be subject to the provisions of any applicable clawback policies or procedures adopted by the Company or its affiliates, which clawback policies or procedures may provide for forfeiture, repurchase and/or recoupment of this Award and amounts paid or payable pursuant to or with respect to such Award. Notwithstanding any provision of the Agreement to the contrary, the Company reserves the right, without your consent or the consent of any beneficiary of this Award, to adopt any such clawback policies and procedures, including such policies and procedures applicable to this Agreement with retroactive effect. By your acceptance of a cash payment pursuant to this Agreement, you are bound by such clawback policies or procedures and you may not seek indemnification or contribution from the Company for any amounts clawed back.

Executed by the Company as of the Award Date.

W&T Offshore, Inc.



By: _____
Tracy W. Krohn, Chief Executive Officer

Appendix A - For Annual Plan

Performance Goals

The Performance Goals for your 2019 Annual Incentive Award are set forth below and will be utilized to calculate your Total Performance Score utilizing straight-line interpolation. The Committee shall review, analyze and certify the achievement of each of the criterion below, either for the Company or yourself, as applicable, and shall determine the Total Performance Score according to the aggregate number of points, expressed as a percentage, you receive from each of the Performance Goals below. For the sake of clarity, with respect to negative metrics such as LOE and G&A, HSE&R, and Cost Control, the Performance Goals should be read as being below the "Threshold", "Target" and "Maximum" levels.

2019 STI Plan

	Threshold	Points (%)	Target	Points (%)	Maximum	Points (%)
Production (MMBoe)	13.2	10.0%	13.6	20.0%	14.3	40.0%
Proved Reserves (MMBoe)	80.0	7.5%	84.0	15.0%	88.0	30.0%
LOE & G&A (\$/boe)	\$ 17.83	5.0%	\$ 16.10	10.0%	\$ 14.55	20.0%
Adjusted EBITDA Margin (%)	52.0	5.0%	57.0	10.0%	62.0	20.0%
HSE&R score (based on a combination of TIRR, INC Component and Spill Ratio - please see table on A-3 for details)	3.0	2.5%	6.0	5.0%	9.0	10.0%
Cost control on capex spent on wells and P&A projects	115.0%	10.0%	100.0%	20.0%	85.0%	40.0%
Wells coming in on time	60 days after Pre-Drill Estimated Date	5.0%	Within 30 days after Pre-Drill Estimated Date	10.0%	60 days ahead Pre-Drill Estimated Date	20.0%
Post Drill P50 reserves vs. Pre drill P50 reserves	75.0%	5.0%	100.0%	10.0%	125.0%	20.0%
Total		50.0%		100.0%		200.0%

Definitions

Threshold	Threshold amount must be reached to earn any points on a category by category basis.
Points (%)	All points are rounded to the nearest tenth percent.
Production	Full year production volumes for 2019, but taking into account the effect of property sales, if applicable as approved by the Compensation Committee. (Measurement rounded to nearest tenth decimal.)
Proved Reserves	Total proved reserves at YE 2019 (Mboe); and taking into consideration the effect of property sales year over year, if applicable as approved by the Compensation Committee. (Measurement rounded to the nearest tenth decimal.)
LOE & G&A	At year-end 2019, the combined LOE and G&A per Boe (both measurements excluding hurricane expenses, insurance credits for such expenses and/or other extraordinary event, as approved by the Compensation Committee. (Measurement rounded to the nearest tenth decimal.)
Adjusted EBITDA Margin	Measurement rounded to the nearest tenth of a percent
HSE&R score	Measurement rounded to nearest tenth decimal. (please see table below for performance ratios associated with HSE&R score points).
Cost control on capex and P&A projects	<p>Gross actual capex and P&A cost divided by gross pre-drill/AFE estimates (based on drilling JV, Budget and/or AFE's) for:</p> <ol style="list-style-type: none">1) all capex required to drill, complete and hookup new operated wells and Monza wells,2) all capex required to drill, complete and hookup new non-operated wells that in total contributed 5% or more on a net basis to the total net capex and P&A costs for 2019,3) and other capex and P&A expense that individually contribute 5% or more on a net basis to the total net capex and P&A costs for 2019 <p>Metric will be weighted on project by project basis (25%) and cumulative basis (75%). Increased costs related to scope change such as management decision to drill deeper and reaching target depth or additional capital costs related to multiple completions due to finding more hydrocarbons than expected will be considered for adjustments when calculation this metric.</p> <p>Wells that were included in the calculation of this metric in previous years will be excluded in the calculation of this metric for the 2019 program. If capex spent to date as of year-end 2019 to drill, complete and hookup a new well represents less than 80% of the forecasted capex for that well, the well will be excluded in calculating this metric for 2019. Wells that commenced operations in 2018 that were excluded in calculating this metric for 2018 (because there was >20% of capital left to spend on the project beyond 2018 based on total forecasted capex) will be included in the 2019 program, provided that at least 80% of the forecasts capital expenditures have been spent to date on the wells by year-end 2019. (Measurement rounded to the nearest tenth of a percent.)</p>
Wells coming in on time	<p>The days between the actual date that initial production begins as compared to the date designated in the pre-drill estimate (based on drilling JV, budget and/or AFE's) on a project by project basis. Total points per well dependent on number of wells that come online in 2019. For instance, if there are 5 wells that start producing in 2019 and all wells come online within 30 days of pre-drill estimates, every well will receive 2.0%. To better understand how to extrapolate ward points between target and threshold or maximum levels assuming 5 wells come online in 2019: If estimated pre-drill initial production date for a well was 5/15/19 and the well came online 45 days earlier on 4/1/19, employees would receive 3.0% for this well for this category. Timing delays related to scope changes such as management decision to drill deeper after reaching target depth or multiple completions due to finding more hydrocarbons than expected will be considered for adjustment when calculating this metric. (Measurement rounded to the nearest tenth of a percent.)</p>
Post drill P50 reserves vs. Pre drill P50 reserves	Post drill gross P50/2P reserves divided by Pre drill gross P50 reserves (comparison on revenue from reserves before expense basis to account for changes in oil/gas mix using the same price deck). Metric will be weighted on both project by project (25%) and cumulative (75%). Wells with expected IRR's over 100% that achieve post-drill IRR's > 100% will at a minimum receive threshold points for this metric. (Measurement rounded to the nearest tenth of a percent.)

HSE&R Score Calculation Details

<i>Combined HSE Score: 0 to 9 points</i>			
TRIR Performance Level			
0.35	Maximum		Points 3
0.45	Target		2
0.65	Threshold		1
Spill Performance Level			
0.2	Maximum		Points 3
0.5	Target		2
1.0	Threshold		1
INC Performance Level			
0.020	Maximum		Points 3
0.025	Target		2
0.030	Threshold		1

TRIR (Total Recordable Incident Rate) Total Number of Recordable Cases (occupational injury requiring medical treatment) x 200,000/divided by total hours worked by all employees during the year covered

Spill ratio: Barrels spilled / millions of barrels produced

INC to Component Ratio: Number of INCs (Incidents of Non-Compliance) / number of components inspected by BSEE

W&T OFFSHORE, INC.
AMENDED AND RESTATED INCENTIVE COMPENSATION PLAN
2019 EXECUTIVE LONG TERM INCENTIVE PLAN AGREEMENT

This Executive Long Term Incentive Plan Agreement (this "*Agreement*") is made and entered into as of June 3, 2019 (the "*Date of Grant*"), by and between W&T Offshore, Inc., a Texas corporation (the "*Company*") and the executive whose name appears in the footer below ("*you*");

WHEREAS, the Company in order to induce you to enter into and to continue and dedicate service to the Company and to materially contribute to the success of the Company agrees to grant you this restricted stock unit and/or cash award;

WHEREAS, the Company adopted the W&T Offshore, Inc. Amended and Restated Incentive Compensation Plan, as it may be amended from time to time (the "*Plan*") under which the Company is authorized to grant stock-based awards to certain employees of the Company; and

WHEREAS, the Company adopted the W&T Offshore, Inc. Stock Ownership and Retention Policy, as it may be amended from time to time (the "*Policy*") under which the Company has established various stock ownership and retention requirements; and

NOW, THEREFORE, in consideration of and mutual covenants set forth herein and for other valuable consideration hereinafter set forth, the grant of the Award is made subject to the following terms and conditions:

1 . The Grant. Subject to the conditions set forth below and the adjustment provisions of Section 2(b), the Company hereby grants to you effective as of the Date of Grant, as a matter of separate inducement but not in lieu of any salary or other compensation for your services for the Company, an award consisting of (i) _____ shares of restricted stock units in accordance with the terms and conditions set forth herein and in the Plan (the "*Restricted Stock Units*") and (ii) \$ _____ in cash (the "*Cash Grant*") (the Restricted Stock Units and the Cash Grant shall be referred to together as the "*Award*"). The Award is equal to ___% of your Base Salary (defined below). The Restricted Stock Units included in the Award are based on the strike price set by the Company for 2019. For the avoidance of doubt, the Cash Grant will be paid if, as and when the Restricted Stock Units vest under this Agreement and the Plan. To the extent you commenced employment after the beginning of the initial performance period, the Award has been adjusted to reflect that fact.

2 . Vesting Date, Adjustment, and Other Restrictions. Subject to the terms and conditions of this Agreement and the Plan, including, without limitation, Section 5, the Award will vest, subject to the Performance Vesting Requirement, on December 14, 2021 (the "*Vesting Date*").

(a) Performance Vesting Requirement. The "*Performance Vesting Requirement*" means the achievement of the "*Performance Goals*," which are performance criteria established by the Committee pursuant to Section 7 of the Plan and set forth in Appendix A attached hereto.

(b) Adjustments Following the Satisfaction of the Performance Vesting Requirement. Immediately following the Committee's certification of the satisfaction of the applicable Performance Vesting Requirement and the applicable level of achievement attained in connection therewith, the Award subject to a Performance Vesting Requirement granted to you pursuant to Section 1 of this Agreement shall be adjusted to reflect the achievement of the Performance Goals during the applicable performance period. To the extent after the Date of the Grant you were on an approved, unpaid leave of absence during any part of the applicable performance period, the Award subject to that Performance Vesting Requirement shall be further adjusted to equal (x) the Award subject to that Performance Vesting Requirement adjusted above to reflect the achievement of the Performance Goals times (y) a number equal to the quotient resulting from your Actual Base Salary (as hereinafter defined) divided by your Base Salary (as hereinafter defined). In addition, the Committee has the right to further increase, reduce or eliminate the Award granted to you for any reason regardless of the satisfaction of the Performance Vesting Requirement and the applicable level of achievement attained in connection therewith. In the event of a negative adjustment, the remaining Award subject to that Performance Vesting granted to you pursuant to Section 1 of this Agreement not eligible for vesting shall be forfeited as of the end of the applicable performance period. The Committee shall promptly notify you of any and all adjustments made to your Award pursuant to this Section 2(b).

For purposes of this Agreement, "**Base Salary**" means your annual pay rate in effect at the beginning of the applicable performance period calculated over the applicable performance period, (i) including any amounts deferred pursuant to an election under any 401(k) plan, pre-tax premium plan, deferred compensation plan, or flexible spending account sponsored by the Company or any Subsidiary, but (ii) *excluding* any incentive compensation, employee benefit, or other cash benefit paid or provided under any incentive, bonus or employee benefit plan sponsored by the Company or any Subsidiary, and/or any excellence award, gains upon stock option exercises, restricted stock grants or vesting, moving or travel expense reimbursement, imputed income, or tax gross-ups, without regard to whether the payment or gain is taxable income to you. To the extent you commence employment after the beginning of the initial performance period, your Base Salary for that initial performance period shall mean the base salary you would receive working (based on your annual pay rate in effect on your first day of employment) for the period from your first day of employment until the end of the initial performance period.

For purposes of this Agreement, "**Actual Base Salary**" means the base salary you actually received during the applicable performance period calculated as of the last day of the applicable performance period, (i) including any amounts deferred pursuant to an election under any 401(k) plan, pre-tax premium plan, deferred compensation plan, or flexible spending account sponsored by the Company or any Subsidiary, and any overtime paid to you as an offshore employee required by your standard work schedule, but (ii) *excluding* any incentive compensation, employee benefit, or other benefit paid or provided under any incentive, bonus or employee benefit plan sponsored by the Company or any Subsidiary, all overtime paid other than as specified in (i) above and/or any excellence award, gains upon stock option exercises, restricted stock grants or vesting, moving or travel expense reimbursement, sign on bonus, imputed income, or tax gross-ups, without regard to whether the payment or gain is taxable income to you.

By way of example only, the Performance Vesting Requirement adjustment described above will operate as follows: if, as part of your Award, you are granted 1,000 Restricted Stock Units subject to a Performance Vesting Requirement on the Date of Grant, and the level of achievement of the Performance Goals during the applicable performance period is reached at a level the Company has designated as a 75% achievement level, it will only be possible for you to vest in 750 Restricted Stock Units on the Vesting Date and the remaining 250 Restricted Stock Units shall be forfeited as of the end of the performance period. In addition, to the extent you were on approved, unpaid leave during any part of the applicable performance period, the number of such Restricted Stock Units shall be further adjusted as described in the first paragraph of Section 2(b) to the extent your Actual Base Salary for the applicable performance period is less than your Base Salary for such performance period. As noted in the first paragraph of Section 2(b), the Committee has the right to further increase, reduce or eliminate your Award (including the number of Restricted Stock Units granted to you) for any reason regardless of the satisfaction of the Performance Vesting Requirement and the applicable level of achievement attained in connection therewith.

(c) Other Restrictions. Subject to Section 5 of this Agreement, the restrictions on your Award will expire on the Vesting Date only if you have been an employee of the Company or of a Subsidiary continuously from the Date of Grant through the Vesting Date. In the event that the Performance Vesting Requirement is not satisfied, no portion of the Award subject to that Performance Vesting Requirement shall become vested. Restricted Stock Units that have become vested pursuant to this Section 2 shall be referred to herein as the “*Vested Units*.” That portion of the Cash Grant that has become vested pursuant to this Section 2 shall be referred to herein as the “*Vested Cash Grant*.”

3. Settlement.

(a) Form of Settlement. The Committee, in its sole discretion, shall determine at the time of such settlement whether the Vested Units will be settled: (i) in a single lump sum cash payment in an amount equal to the Fair Market Value of Stock as of the date of settlement multiplied by the number of Vested Units to be settled, (ii) in shares of such Stock, or (iii) in a combination of cash and shares of Stock. Settlement of Vested Units shall be subject to and pursuant to rules and procedures established by the Committee in its sole discretion. The Committee, in its sole discretion, shall determine at the time of such settlement whether the Vested Cash Grant will be settled: (i) in a single lump sum cash payment, (ii) in shares of Stock equal to the Vested Cash Grant divided by the Fair Market Value of Stock as of the date of settlement to, or (iii) in a combination of cash and shares of Stock. Settlement of Vested Cash Grant shall be subject to and pursuant to rules and procedures established by the Committee in its sole discretion.

(b) Time of Settlement. The Vested Units and Vested Cash Grant shall be settled by the Company as soon as administratively feasible following the Vesting Date, but in no event shall such settlement occur later than 75 days following the Vesting Date.

4 . Restrictions, Forfeiture and Limitations on Ownership. The shares of Restricted Stock Units are restricted in the sense that they may be forfeited to the Company prior to the time the Restricted Stock Units are deemed Vested Units. You, or your executor, administrator, heirs, or legatees shall have the right to vote any shares of Stock you may receive as settlement of the Vested Units and hold all other privileges of a shareholder of the Company only from the date of issuance of a Stock certificate in your name representing payment of a Vested Unit in the form of a share of Stock, or the delivery of the Stock to the Company's transfer agent, as applicable.

5. Termination of Services or Change in Control.

(a) Termination due to your Death or Disability. Following the satisfaction of the Performance Vesting Requirement, if your employment with the Company and any of its Subsidiaries is terminated as a result of your death or Disability (as defined below), then the forfeiture restrictions on your Award subject to that Performance Vesting Requirement, subject to any adjustment pursuant to Section 2(b) above, shall automatically lapse, and in the case of your Disability, subject to Section 11 of this Agreement. If your employment with the Company and any of its Subsidiaries is terminated as a result of your death or Disability prior to the satisfaction of the Performance Vesting Requirement, no portion of your Award subject to that Performance Vesting Requirement will become vested.

For purposes of this Section 5(a), the term "**Disability**" shall have the meaning given such term in any written employment, severance or other similar individual agreement (an "**Individual Agreement**") between you and the Company. In the event that there is no existing written Individual Agreement between you and the Company or if any such agreement does not define Disability, the term "**Disability**" shall mean: (i) a physical or mental impairment of sufficient severity that, in the sole opinion of the Company, (A) you are unable to continue performing the duties assigned to you prior to such impairment or (B) your condition entitles you to disability benefits under any insurance or employee benefit plan of the Company or its Subsidiaries, and (ii) the impairment or condition is cited by the Company as the reason for your termination; *provided, however*, that in all cases, the term Disability shall be applied and interpreted in compliance with section 409A of the Code and the regulations thereunder.

(b) Termination due to your Normal Retirement. Following the satisfaction of the Performance Vesting Requirement, if your employment with the Company and any of its Subsidiaries is terminated as a result of your Normal Retirement prior to the Vesting Date, then the restrictions on your Award subject to that Performance Vesting Requirement, subject to any adjustment pursuant to Section 2(b) above, shall automatically lapse pro-rata in relation to the amount of time you have been employed by the Company or any of its Subsidiaries, as described below; *provided, however*, that such restrictions shall lapse subject to the additional provisions of Section 11 of this Agreement, if applicable. Solely for purposes of determining that portion of your Award that may lapse or vest pursuant to this Section 5(b), the Award subject to that Performance Vesting Requirement, as adjusted pursuant to Section 2(b) above, shall be referred to in two portions, two-thirds (2/3) of the Award shall be the "**Two-Year Portion**"; the remaining and final one-third (1/3) of the Award shall be the "**Three-Year Portion**." Following a termination of your employment due to your Normal Retirement:

(i) restrictions will lapse on the Two-Year Portion equal to the product of (A) two-thirds (2/3) of your total Award granted to you, subject to any adjustment pursuant to Section 2(b) above, times (B) a fraction, the numerator of which is the number of full months (counting the month in which your termination of employment occurs as a full month), beginning with the first day of the first month of the year in which the Date of Grant occurs, during which you were employed by the Company and/or any Subsidiary (not to exceed 24) and the denominator of which is 24; plus

(ii) restrictions will lapse on the Three-Year Portion equal to the product of (A) one-third (1/3) of your total Award, subject to any adjustment pursuant to Section 2(b) above, times (B) a fraction, the numerator of which is the number of full months (counting the month in which your termination of employment occurs as a full month), beginning with the first day of the first month of the year in which the Date of Grant occurs, during which you were employed by the Company and/or any Subsidiary and the denominator of which is 36.

Notwithstanding anything to the contrary in Section 2 or the remainder of this Section 5, as an example calculation, an individual who was employed at January 1, 2019 and terminating employment due to Normal Retirement in April 2020 with an Award consisting of 3,000 shares of Restricted Stock Units and \$10,000.00 in Cash Grant shall receive the following adjusted award under this Agreement:

	Portion of RSU Affected	Portion of Cash Grant Affected	Numerator (number of full months worked since 1/1/2019)	Denominator	Fraction	Pro rata RSU at Retirement	Pro rata Cash Grant at Retirement
2 year portion	2,000	\$ 6,666.67	16	24	0.66667	1,333	\$ 4,444.44
3 year portion	1,000	\$ 3,333.33	16	36	0.44444	444	\$ 1,481.48
TOTAL						1,777	\$ 5,925.92

If your employment with the Company and any of its Subsidiaries is terminated as a result of your Normal Retirement prior to the satisfaction of the Performance Vesting Requirement, no portion of your Award subject to that Performance Vesting Requirement will become Vested Units. For purposes of this Section 5(b), the term “*Normal Retirement*” shall have the meaning given such term in any Individual Agreement between you and the Company. In the event that there is no existing written Individual Agreement between you and the Company or if any such agreement does not define Normal Retirement, the term “*Normal Retirement*” shall mean the termination of your employment with the Company and each of its Subsidiaries by which you are employed due to your voluntary retirement on or after the date that you attain age 67.

(c) Termination for Any Other Reason. Subject to Sections 5(d) and 5(e) below, if your employment with the Company or any of its Subsidiaries is terminated for any other reason other than your death, Disability or your Normal Retirement prior to the Vesting Date, then that portion, if any, of the Award granted pursuant to this Agreement which have not become either Vested Units or Vested Cash Grants as of the date of termination shall become null and void as of the date of such termination.

(d) Change in Control.

(i) Prior to Satisfaction of the Performance Vesting Requirement Notwithstanding anything to the contrary in Section 2 or the remainder of this Section 5, in the event that a Change in Control is consummated prior to both the Vesting Date and the end of the applicable performance period for which the Performance Vesting Requirement relates, forfeiture restrictions on your Award subject to that Performance Vesting Requirement granted to you pursuant to Section 1 of this Agreement shall automatically lapse and the Award subject to that Performance Vesting Requirement will vest, subject further to Section 11 of this Agreement.

(ii) Following the Satisfaction of the Performance Vesting Requirement Notwithstanding anything to the contrary in the remainder of this Section 5, in the event that a Change in Control is consummated prior to the Vesting Date but following the satisfaction of the Performance Vesting Requirement, forfeiture restrictions on your Award subject to that Performance Vesting Requirement, subject to any adjustment pursuant to Section 2(b) above, shall automatically lapse and such Award subject to that Performance Vesting Requirement will vest subject further to Section 11 of this Agreement. For further clarity, in the event that the Change in Control is consummated following the applicable performance period to which the Performance Vesting Requirement relates, but the Performance Vesting Requirement was not achieved during such time, no portion of the Award subject to that Performance Vesting Requirement shall become vested upon a Change in Control.

(iii) Other restrictions. Nothing within this Section 5(d) is intended to modify Sections 5(a) or 5(b) above regarding the full acceleration or pro-rata acceleration, as applicable, of your Award upon a termination of employment due to death, Disability or Normal Retirement. The provisions of Sections 5(a) and 5(b) shall apply to a termination of your employment for death, Disability or Normal Retirement, as applicable, whether or not such a termination of employment were to occur in connection with a Change in Control.

(e) Effect of Individual Agreement. Notwithstanding any provision herein to the contrary, in the event of any inconsistency between this Section 5 and any Individual Agreement entered into by and between you and the Company, the terms of such an Individual Agreement shall control.

6. Leave of Absence. With respect to the Award, the Company may, in its sole discretion, determine that if you are on leave of absence for any reason you will be considered to still be in the employ of the Company, provided that, except as set forth in Section 2(b), rights to the Restricted Stock Units and Cash Grant during a leave of absence will be limited to the extent to which those rights were earned or vested when the leave of absence began.

7. Delivery of Stock. In the event the Committee determines to settle the Restricted Stock Units in the form of Stock, promptly following the expiration of the restrictions on the Restricted Stock Units as contemplated in Sections 2 or 5 of this Agreement, the Company shall either cause to be issued and delivered to you or your designee a certificate or other evidence of the number of Restricted Stock Units as to which restrictions have lapsed, free of any restrictive legend relating to the lapsed restrictions, or cause those number of Restricted Stock Units to be properly registered with the Company's transfer agent as appropriate, upon receipt by the Company of any tax withholding as may be requested pursuant to Section 8 of this Agreement. The value of such Restricted Stock Units shall not bear any interest owing to the passage of time.

8. Payment of Taxes. The Company may require you to pay to the Company (or the Company's Subsidiary if you are an employee of a Subsidiary of the Company), an amount the Company deems necessary to satisfy its (or its Subsidiary's) current or future obligation to withhold federal, state or local income or other taxes that you incur as a result of the Award. With respect to any such required tax withholding, the Company will withhold from the Award to be issued to you under this Agreement, as applicable, the cash amount or the number of shares necessary to satisfy the Company's obligation to withhold taxes; where the Restricted Stock Units or Cash Grant will be settled in shares of Stock, such a determination will be based on the shares' Fair Market Value at the time such determination is made. In the event the Restricted Stock Units or Cash Grant are settled in shares of Stock, and Company determines that the aggregate Fair Market Value of the shares of Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then you must pay to the Company, in cash, the amount of that deficiency immediately upon the Company's request.

9. Compliance with Securities Law. Notwithstanding any provision of this Agreement to the contrary, in the event the Restricted Stock Units or Cash Grant are settled in shares of Stock, the issuance of Stock will be subject to compliance with all applicable requirements of federal, state, or foreign law with respect to such securities and with the requirements of any stock exchange or market system upon which the Stock may then be listed. No Stock will be issued hereunder if such issuance would constitute a violation of any applicable federal, state, or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, Stock will not be issued hereunder unless a registration statement under the Securities Act of 1933, as amended (the "*Act*"), is at the time of issuance in effect with respect to the shares issued or in the opinion of legal counsel to the Company, the shares issued may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Award will relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority has not been obtained. As a condition to any issuance hereunder, the Company may require you to satisfy any qualifications that may be necessary or appropriate to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect to such compliance as may be requested by the Company. From time to time, the Board and appropriate officers of the Company are authorized to take the actions necessary and appropriate to file required documents with governmental authorities, stock exchanges, and other appropriate Persons to make shares of Stock available for issuance.

10. Right of the Company and Subsidiaries to Terminate Employment. Nothing in this Agreement confers upon you the right to continue in the employ of the Company or any Subsidiary, or interfere in any way with the rights of the Company or any Subsidiary to terminate your employment at any time, with or without cause.

11. Non-Compete Agreements. The Company, in its sole discretion, may require you to execute a separate non-compete, non-solicitation, or similar agreement in connection with the grant of the Award pursuant to this Agreement or in connection with the acceleration of any portion of the Award in accordance with the provisions of Section 5 of this Agreement.

12. Furnish Information. You agree to furnish to the Company all information requested by the Company to enable it to comply with any reporting or other requirements imposed upon the Company by or under any applicable statute or regulation.

13. Remedies. The parties to this Agreement shall be entitled to recover from each other reasonable attorneys' fees incurred in connection with the successful enforcement of the terms and provisions of this Agreement whether by an action to enforce specific performance or for damages for its breach or otherwise.

14. No Liability for Good Faith Determinations. The Company, the Committee and the members of the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Award granted hereunder.

15. Execution of Receipts and Releases. Any payment of cash or any issuance or transfer of shares of Stock or other property to you, or to your legal representative, heir, legatee or distributee, in accordance with the provisions hereof, shall, to the extent thereof, be in full satisfaction of all claims of such Persons hereunder. The Company may require you or your legal representative, heir, legatee or distributee, as a condition precedent to such payment or issuance, to execute a release and receipt therefor in such form as the Company shall determine.

16. No Guarantee of Interests. The Company, the members of the Committee and the Board do not guarantee the Stock of the Company from loss or depreciation.

17. Notice. All notices required or permitted under this Agreement must be in writing and personally delivered or sent by mail and shall be deemed to be delivered on the date on which it is actually received by the person to whom it is properly addressed or if earlier the date it is sent via certified United States mail.

18. Waiver of Notice. Any person entitled to notice hereunder may waive such notice in writing.

19. Information Confidential. As partial consideration for the granting of the Award hereunder, you hereby agree to keep confidential all information and knowledge, except that which has been disclosed in any public filings required by law, that you have relating to the terms and conditions of this Agreement; *provided, however*, that such information may be disclosed as required by law and may be given in confidence to your spouse and tax and financial advisors. In the event any breach of this promise comes to the attention of the Company, it shall take into consideration that breach in determining whether to recommend the grant of any future similar award to you, as a factor weighing against the advisability of granting any such future award to you.

20. Successors. This Agreement shall be binding upon you, your legal representatives, heirs, legatees and distributees, and upon the Company, its successors and assigns, including, but not limited to, any successor entity resulting from a Change in Control.

21. Severability. If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

22. Company Action. Any action required of the Company shall be by authority of the Board or by a person or entity authorized to act by the Board.

23. Headings. The titles and headings of Sections are included for convenience of reference only and are not to be considered in construction of the provisions hereof.

24. Governing Law. All questions arising with respect to the provisions of this Agreement shall be determined by application of the laws of Texas, without giving any effect to any conflict of law provisions thereof, except to the extent Texas state law is preempted by federal law. The obligation of the Company to sell and deliver Stock hereunder is subject to applicable laws and to the approval of any governmental authority required in connection with the authorization, issuance, sale, or delivery of such Stock.

25. Consent to Texas Jurisdiction and Venue. You hereby consent and agree that state courts located in Harris County, Texas and the United States District Court for the Southern District of Texas each shall have personal jurisdiction and proper venue with respect to any dispute between you and the Company arising in connection with the Award or this Agreement. In any dispute with the Company, you will not raise, and you hereby expressly waive, any objection or defense to any such jurisdiction as an inconvenient forum.

26. Amendment. This Agreement may be amended by the Board or by the Committee at any time (a) if the Board or the Committee determines, in its sole discretion, that amendment is necessary or advisable in light of any addition to or change in any federal or state tax or securities law or other law or regulation, which change occurs after the Date of Grant and by its terms applies to the Award; or (b) other than in the circumstances described in clause (a) or provided in the Plan, with your consent.

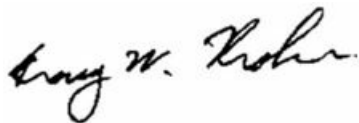
27. Transfer. This Agreement and the Award granted hereunder will not be transferable by you other than by will or the laws of descent and distribution, or as otherwise provided by the Plan.

28. The Plan. This Agreement is subject to all the terms, conditions, limitations and restrictions contained in the Plan.

29. The Policy. This Agreement and this Award is subject to all the terms, conditions, limitations and restrictions contained within the Policy.

30. Clawback. To the extent required by applicable law or any applicable securities exchange listing standards, or as otherwise determined by the Committee, this Award and amounts or shares paid or payable pursuant to or with respect to this Award shall be subject to the provisions of any applicable clawback policies or procedures adopted by the Company or its affiliates, which clawback policies or procedures may provide for forfeiture, repurchase and/or recoupment of this Award and amounts or shares paid or payable pursuant to or with respect to such Award. Notwithstanding any provision of the Agreement to the contrary, the Company reserves the right, without your consent or the consent of any beneficiary of this Award, to adopt any such clawback policies and procedures, including such policies and procedures applicable to this Agreement with retroactive effect. Your acceptance of this Award shall constitute your agreement (1) to be bound by such clawback policies or procedures and (2) to not seek indemnification or contribution from the Company for any amounts clawed back.

W&T OFFSHORE, INC.



By: _____
Tracy W. Krohn, Chief Executive Officer

Appendix A

Performance Goals for 2019 Award

The Performance Goals for your Award shall be comprised of the business criterion noted below. Subject to the achievement of the applicable Performance Level (defined below) for the applicable performance period and resulting adjustments under Section 2(b) of the Agreement, your Award, as adjusted, will become Vested Units and Vested Cash Grants on the Vesting Date, only if you have been an employee of the Company or of a Subsidiary continuously from the Date of Grant through the Vesting Date. The applicable Scale between the Performance Levels on the charts below will be calculated using straight-line interpolation. The Committee shall review, analyze and certify the achievement of the Performance Level for each business criteria for the applicable performance period and shall determine whether the Performance Vesting Requirement has been met, in accordance with the Agreement and the terms of the Plan. For determination of meeting the Performance Vesting Requirement, the Performance Level achieved for the applicable performance period shall be deemed achieved effective as of the last day of the applicable performance period, despite any delay that may occur in determining which Performance Level is met during the Committee's certification process.

Business Criteria

Criteria	Percentage of 100% of the Award Which is Subject to Performance Criteria	Performance Period
Adjusted EBITDA(1) for the Performance Period as approved by the Compensation Committee (Measurement rounded to nearest million)	40%	The full calendar year, from January 1 to December 31, 2019

Performance Level (000)	Scale
("Target"):\$295,000 or greater	100%
\$200,000 or greater	75%
\$90,000 or greater	50%
less than \$90,000	0%

- (1) We define EBITDA as net income plus income tax expense, net interest expense, depreciation, depletion, amortization, and accretion. Adjusted EBITDA excludes the unrealized gain or loss related to our derivative contracts, contract option fee, gain or loss on extinguishment of debt, gains or losses in connection with litigation settlements, and other items that are, in the sole discretion of the Compensation Committee appropriate adjustment to reflect normalized results.

Criteria	Percentage of 100% of the Award Which Is Subject to Performance Criteria	Performance Period
Adjusted EBITDA Margin Percentage for the Performance Period (Measurement rounded to nearest 1/10 th decimal)	60%	The full calendar year, from January 1 to December 31, 2019

Performance Level	Scale
Greater than or equal to 57% ("Target")	100%
Greater than or equal to 50%	75%
Greater than or equal to 45%	50%
Greater than or equal to 40%	25%
Less than 40%	0%

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Tracy W. Krohn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of W&T Offshore, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 31, 2019

/s/ Tracy W. Krohn

Tracy W. Krohn
Chairman, Chief Executive Officer, President and Director
(Principal Executive Officer)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Janet Yang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of W&T Offshore, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 31, 2019

/s/ Janet Yang

Janet Yang
Executive Vice President, Chief Financial Officer
And Chief Accounting Officer
(Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of W&T Offshore, Inc. (the "Company"), hereby certifies, to the best of his or her knowledge, that the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 31, 2019

/s/ Tracy W. Krohn

Tracy W. Krohn
Chairman, Chief Executive Officer, President and Director
(Principal Executive Officer)

Date: October 31, 2019

/s/ Janet Yang

Janet Yang
Executive Vice President, Chief Financial Officer
And Chief Accounting Officer
(Principal Financial Officer)