
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 **March 31, 2014**

OR

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

For the transition period from _____ to _____

Commission File Number **1-32414**

W&T OFFSHORE, INC.

(Exact name of registrant as specified in its charter)

Texas
(State of incorporation)

72-1121985
(IRS Employer
Identification Number)

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

77046-0908
(Zip Code)

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

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

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

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

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

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

As of May 5, 2014, there were 75,634,246 shares outstanding of the registrant's common stock, par value \$0.00001.

W&T OFFSHORE, INC. AND SUBSIDIARIES

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Item 1. Financial Statements

PART I – FINANCIAL INFORMATION
W&T OFFSHORE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, 2014 | December 31, 2013 |
|---|--|----------------------|
| | (In thousands, except per share data) (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 20,335 | \$ 15,800 |
| Receivables: | | |
| Oil and natural gas sales | 93,937 | 96,752 |
| Joint interest and other | 27,588 | 27,984 |
| Income tax | 3,155 | 3,120 |
| Total receivables | 124,680 | 127,856 |
| Prepaid expenses and other assets | 27,015 | 29,946 |
| Total current assets | 172,030 | 173,602 |
| Property and equipment - at cost: | | |
| Oil and natural gas properties and equipment (full cost method, of which \$118,125 at March 31, 2014 and \$116,612 at December 31, 2013 were excluded from amortization) | 7,443,733 | 7,339,097 |
| Furniture, fixtures and other | 21,633 | 21,431 |
| Total property and equipment | 7,465,366 | 7,360,528 |
| Less accumulated depreciation, depletion and amortization | 5,202,966 | 5,084,704 |
| Net property and equipment | 2,262,400 | 2,275,824 |
| Restricted deposits for asset retirement obligations | 39,961 | 37,421 |
| Other assets | 20,213 | 20,455 |
| Total assets | \$ 2,494,604 | \$ 2,507,302 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 115,344 | \$ 145,212 |
| Undistributed oil and natural gas proceeds | 38,312 | 42,107 |
| Asset retirement obligations | 68,679 | 77,785 |
| Accrued liabilities | 43,698 | 28,000 |
| Total current liabilities | 266,033 | 293,104 |
| Long-term debt, less current maturities | 1,193,847 | 1,205,421 |
| Asset retirement obligations, less current portion | 285,720 | 276,637 |
| Deferred income taxes | 188,183 | 178,142 |
| Other liabilities | 13,497 | 13,388 |
| Commitments and contingencies | — | — |
| Shareholders' equity: | | |
| Preferred stock, \$0.00001 par value; 20,000,000 shares authorized; 0 issued at March 31, 2014 and December 31, 2013 | — | — |
| Common stock, \$0.00001 par value; 118,330,000 shares authorized; 78,503,419 issued and 75,634,246 outstanding at March 31, 2014; 78,460,872 issued and 75,591,699 outstanding at December 31, 2013 | 1 | 1 |
| Additional paid-in capital | 406,752 | 403,564 |
| Retained earnings | 164,738 | 161,212 |
| Treasury stock, at cost | (24,167) | (24,167) |
| Total shareholders' equity | 547,324 | 540,610 |
| Total liabilities and shareholders' equity | \$ 2,494,604 | \$ 2,507,302 |

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended | |
|---|--------------------------------------|------------------|
| | March 31, | |
| | 2014 | 2013 |
| | (In thousands except per share data) | |
| | (Unaudited) | |
| Revenues | \$ 254,516 | \$ 259,222 |
| Operating costs and expenses: | | |
| Lease operating expenses | 55,617 | 59,341 |
| Production taxes | 1,992 | 1,789 |
| Gathering and transportation | 5,296 | 4,444 |
| Depreciation, depletion, amortization and accretion | 123,306 | 108,872 |
| General and administrative expenses | 23,588 | 21,087 |
| Derivative loss | 7,492 | 3,368 |
| Total costs and expenses | <u>217,291</u> | <u>198,901</u> |
| Operating income | 37,225 | 60,321 |
| Interest expense: | | |
| Incurred | 21,460 | 21,234 |
| Capitalized | <u>(2,072)</u> | <u>(2,433)</u> |
| Income before income tax expense | 17,837 | 41,520 |
| Income tax expense | 6,648 | 14,902 |
| Net income | <u>\$ 11,189</u> | <u>\$ 26,618</u> |
| Basic and diluted earnings per common share | \$ 0.15 | \$ 0.35 |
| Dividends declared per common share | \$ 0.10 | \$ 0.08 |

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Common Stock Outstanding | | Additional Paid-In Capital | Retained Earnings | Treasury Stock | | Total Shareholders' Equity |
|-------------------------------|-------------------------------|-------------|----------------------------|-------------------|----------------|--------------------|----------------------------|
| | Shares | Value | | | Shares | Value | |
| | (In thousands) (Unaudited) | | | | | | |
| Balances at December 31, 2013 | 75,592 | \$ 1 | \$ 403,564 | \$ 161,212 | 2,869 | \$ (24,167) | \$ 540,610 |
| Cash dividends | — | — | — | (7,563) | — | — | (7,563) |
| Share-based compensation | 42 | — | 3,758 | — | — | — | 3,758 |
| Other | — | — | (570) | (100) | — | — | (670) |
| Net income | — | — | — | 11,189 | — | — | 11,189 |
| Balances at March 31, 2014 | <u>75,634</u> | <u>\$ 1</u> | <u>\$ 406,752</u> | <u>\$ 164,738</u> | <u>2,869</u> | <u>\$ (24,167)</u> | <u>\$ 547,324</u> |

See Notes to Condensed Consolidated Financial Statements.

W&T OFFSHORE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Months Ended | |
|---|--------------------|------------------|
| | March 31, | |
| | 2014 | 2013 |
| | (In thousands) | |
| | (Unaudited) | |
| Operating activities: | | |
| Net income | \$ 11,189 | \$ 26,618 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion, amortization and accretion | 123,306 | 108,872 |
| Amortization of debt issuance costs and premium | 187 | 447 |
| Share-based compensation | 3,758 | 2,255 |
| Derivative loss | 7,492 | 3,368 |
| Cash payments on derivative settlements (realized) | (4,670) | (4,271) |
| Deferred income taxes | 6,645 | 12,507 |
| Changes in operating assets and liabilities: | | |
| Oil and natural gas receivables | 2,815 | 423 |
| Joint interest and other receivables | 2,286 | 25,875 |
| Income taxes | (35) | 2,372 |
| Prepaid expenses and other assets | 2,709 | 4,911 |
| Asset retirement obligation settlements | (16,342) | (23,464) |
| Accounts payable, accrued liabilities and other | (20,850) | 9,921 |
| Net cash provided by operating activities | <u>118,490</u> | <u>169,834</u> |
| Investing activities: | | |
| Investment in oil and natural gas properties and equipment | (95,067) | (136,626) |
| Purchases of furniture, fixtures and other | (260) | (114) |
| Net cash used in investing activities | <u>(95,327)</u> | <u>(136,740)</u> |
| Financing activities: | | |
| Borrowings of long-term debt - revolving bank credit facility | 92,000 | 112,000 |
| Repayments of long-term debt - revolving bank credit facility | (103,000) | (139,000) |
| Dividends to shareholders | (7,563) | (6,020) |
| Other | (65) | (42) |
| Net cash used in financing activities | <u>(18,628)</u> | <u>(33,062)</u> |
| Increase in cash and cash equivalents | 4,535 | 32 |
| Cash and cash equivalents, beginning of period | 15,800 | 12,245 |
| Cash and cash equivalents, end of period | <u>\$ 20,335</u> | <u>\$ 12,277</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. and subsidiaries, referred to herein as “W&T” or the “Company,” is an independent oil and natural gas producer focused primarily in the Gulf of Mexico and onshore Texas. The Company is active in the exploration, development and acquisition of oil and natural gas properties. Our interest in fields, leases, structures and equipment are primarily owned by W&T Offshore, Inc. (the “Parent Company”) and our wholly-owned subsidiary, W&T Energy VI, LLC (“Energy VI”).

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

Operating results for interim periods are not necessarily indicative of the results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

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.

Adjustment related to additional volumes. In January 2014, we identified that we had been receiving an erroneous conversion factor from a third party that had the effect of understating natural gas production at our Viosca Knoll 783 field (Tahoe). The incorrect conversion factor had been used on all natural gas production from the field since we acquired it in 2011. The effect of using this incorrect conversion factor did not affect revenues, operating cash flows or royalty payments to the federal government but did impact reported natural gas production and the calculation of depletion expense. We performed an analysis of the information, assessing both quantitative and qualitative factors, and determined that the impact on our net income reported for quarters in 2013, as well as the impact to our earnings trend, was not material to the previously reported results, thus the adjustment was recognized in the fourth quarter of 2013. The amounts included in the adjustment recognized in the fourth quarter 2013 period which relate to the first quarter of 2013 were: an increase in natural gas production volumes of 264 million cubic feet (“MMcf”) (with no corresponding increase in revenue); an increase to depreciation, depletion, amortization and accretion expense (“DD&A”) of \$0.8 million; and a decrease to net income of \$0.5 million.

Recent Accounting Developments. None.

2. Acquisitions and Divestitures

2013 Acquisition

On October 17, 2013, W&T Offshore, Inc. entered into a purchase and sale agreement to acquire certain oil and natural gas property interests from Callon Petroleum Operating Company (“Callon”). Pursuant to the purchase and sale agreement, transfers of certain properties that had no preferential rights were consummated on November 5, 2013 and transfers of certain properties subject to preferential rights, of which third-parties declined to exercise their preferential rights, were consummated on December 4, 2013. The properties acquired from Callon (the “Callon Properties”) consist of a 15% working interest in the Medusa field (deepwater Mississippi Canyon blocks 582 and 583), interest in associated production facilities and various interests in other non-operated fields. All of the Callon Properties are located in the Gulf of Mexico. The effective date of the transaction was July 1, 2013. The transaction included customary adjustments for the effective date, certain closing adjustments and we assumed the related ARO. A net purchase price adjustment of \$0.2 million reduction was recorded during the three months ended March 31, 2014. The purchase price is expected to be finalized in the second quarter of 2014. The acquisition was funded from borrowings under our revolving bank credit facility and cash on hand.

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

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

| | |
|--|------------------|
| Cash consideration: | |
| Evaluated properties including equipment | \$ 73,007 |
| Unevaluated properties | 9,248 |
| Sub-total cash consideration | 82,255 |
| Non-cash consideration: | |
| Asset retirement obligations - current | 90 |
| Asset retirement obligations - non-current | 4,143 |
| Sub-total non-cash consideration | 4,233 |
| Total consideration | \$ 86,488 |

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

2013 Acquisition — Revenues, Net Income and Pro Forma Financial Information — Unaudited

The Callon Properties were not included in our consolidated results until the respective property transfer dates, which occurred during the fourth quarter of 2013. For the three months ended March 31, 2014, the Callon Properties accounted for \$8.7 million of revenues, \$0.9 million of direct operating expenses, \$3.5 million of DD&A and \$1.5 million of income taxes, resulting in \$2.8 million of net income. The net income attributable to the Callon Properties does not reflect certain expenses, such as general and administrative expenses (“G&A”) and interest expense; therefore, this information is not intended to report results as if these operations were managed on a stand-alone basis. In addition, the Callon Properties are not recorded in a separate entity for tax purposes; therefore, income tax was estimated using the federal statutory tax rate. There were no expenses associated with acquisition activities and transition activities related to the acquisition of the Callon Properties for the three months ended March 31, 2013.

Consistent with the computation of pro forma financial information presented in Item 8, *Financial Statements and Supplementary Data*, in the Annual Report on Form 10-K for the year end December 31, 2013, the unaudited pro forma financial information was computed as if the acquisition of the Callon Properties had been completed on January 1, 2012. The financial information was derived from W&T’s audited historical consolidated financial statements for annual periods, W&T’s unaudited historical condensed consolidated financial statements for the interim periods, the Callon Properties’ audited historical financial statement for 2012 and the Callon Properties’ unaudited historical financial statements for the interim periods.

The pro forma adjustments were based on estimates by management and information believed to be directly related to the purchase of the Callon Properties. The pro forma financial information is not necessarily indicative of the results of operations had the purchase occurred on January 1, 2012. If the transaction had been in effect for the periods indicated, the results may have been substantially different. For example, we may have operated the assets differently than Callon; the realized sales prices for oil, natural gas liquids (“NGLs”) and natural gas may have been different; and the costs of operating the Callon Properties may have been different.

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

The following table presents a summary of our pro forma financial information (in thousands except earnings per share):

| | Three Months Ended | |
|---|---------------------------|---------|
| | March 31, 2013 | |
| Revenue | \$ | 270,575 |
| Net income | | 29,618 |
| Basic and diluted earnings per common share | | 0.39 |

For the pro forma financial information, certain information was derived from financial records and certain information was estimated.

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

| | Three Months Ended | |
|-------------------------------|---------------------------|--------|
| | March 31, 2013 | |
| Revenues (a) | \$ | 11,353 |
| Direct operating expenses (a) | | 2,206 |
| DD&A (b) | | 4,205 |
| Interest expense (c) | | 411 |
| Capitalized interest (d) | | (84) |
| Income taxes expense (e) | | 1,615 |

The sources of information and significant assumptions are described below:

- (a) Revenues and direct operating expenses for the Callon Properties were derived from the historical financial records of Callon.
- (b) DD&A was estimated using the full-cost method and determined as the incremental DD&A expense due to adding the Callon Properties' costs, reserves and production into our full cost pool in order to compute such amounts. The purchase price allocated to unevaluated properties for oil and natural gas interests was excluded from the DD&A expense estimation. ARO was estimated by W&T management.
- (c) The acquisition was assumed to be funded entirely with borrowed funds. Interest expense was computed using assumed borrowings of \$82.3 million, which equates to the cash component of the transaction, and an interest rate of 2.0%, which equates to the rates applied to incremental borrowings on the revolving bank credit facility.
- (d) The change to capitalized interest was computed for the addition to the pool of unevaluated properties and the capitalization interest rate was adjusted for the assumed borrowings. The negative amount represents a decrease to net expenses.
- (e) Income tax expense was computed using the 35% federal statutory rate.

The pro forma adjustments do not include adjustments related to any other acquisitions or divestitures.

2013 Divestitures. On July 11, 2013, we sold our non-operated working interest in two offshore fields located in the Gulf of Mexico; the Green Canyon 60 field and the Green Canyon 19 field. The effective date was October 1, 2011 and we retained the deep rights in both fields. Due to the length of time from the effective date, we paid \$4.3 million to sell the properties as revenues exceeded operating expenses and the purchase price for the period between the effective date and the close date. In connection with the sale, we reversed \$15.6 million of our ARO.

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

On September 26, 2013, we sold our working interests in the West Delta area block 29 with an effective date of January 1, 2013. The property is located in the Gulf of Mexico. Including adjustments for the effective date, the net proceeds were \$16.5 million. The transaction was structured as a like-kind exchange under the Internal Revenue Service Code (“IRC”) Section 1031 and other applicable regulations, with funds held by a qualified intermediary until replacement purchases are made. Replacement purchases were made in 2013, which were within the replacement periods as defined under the IRC. In connection with this sale, we reversed \$3.9 million of ARO.

3. Asset Retirement Obligations

Our ARO primarily represents the estimated present value of the amount we will incur to plug, abandon and remediate our producing properties at the end of their productive lives in accordance with applicable laws.

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

| | |
|--|-------------------|
| Balance, December 31, 2013 | \$ 354,422 |
| Liabilities settled | (16,342) |
| Accretion of discount | 4,983 |
| Liabilities incurred | 4,277 |
| Revisions of estimated liabilities (1) | <u>7,059</u> |
| Balance, March 31, 2014 | 354,399 |
| Less current portion | <u>68,679</u> |
| Long-term | <u>\$ 285,720</u> |

(1) Revisions were primarily due to increased estimates related to work requiring coiled tubing at two locations and removal of a platform at one location.

4. Derivative Financial Instruments

Our market risk exposure relates primarily to commodity prices and interest rates. From time to time, we use various derivative instruments to manage our exposure to commodity price risk from sales of our oil and natural gas and interest rate risk from floating interest rates on our revolving bank credit facility. All of the derivative counterparties are also lenders or affiliates of lenders participating in our revolving bank credit facility. We are exposed to credit loss in the event of nonperformance by the derivative counterparties; however, we currently anticipate that each of our derivative counterparties will be able to fulfill their contractual obligations. Additional collateral is not required by us due to the derivative counterparties’ collateral rights as lenders and we do not require collateral from our derivative counterparties.

In accordance with GAAP, we record each derivative contract on the balance sheet as an asset or a liability at its fair value. For additional information about fair value measurements, refer to Note 6. We have elected not to designate our commodity derivative contracts as hedging instruments; therefore, all changes in the fair value of derivative contracts are recognized currently in earnings. The cash flows of all of our commodity derivative contracts are included in *Net cash provided by operating activities* on the statements of cash flows.

Commodity Derivatives. We have entered into commodity swap contracts to manage a portion of our exposure to commodity price risk from sales of oil through December 2014. While these contracts are intended to reduce the effects of price volatility, they may also limit future income from favorable price movements. During the three months ended March 31, 2014 and during 2013, our derivative contracts consisted entirely of crude oil swap contracts. The crude oil swap contracts are comprised of a portion based on Brent crude oil prices, a portion based on West Texas Intermediate (“WTI”) crude oil prices and a portion based on Light Louisiana Sweet (“LLS”) crude oil prices. The Brent based swap contracts are priced off the Brent crude oil price quoted on the IntercontinentalExchange, known as ICE. The WTI based swap contracts are priced off the New York Mercantile Exchange, known as NYMEX. The LLS based swap contracts are priced from data provided by Argus, an independent media organization. Although our Gulf of Mexico crude oil is based off the WTI crude oil price plus a premium, the realized prices received for our Gulf of Mexico crude oil, up until October 2013, have been closer to the Brent crude oil price because of competition with foreign supplied crude oil, which is based off the Brent crude oil price. Therefore, a portion of the swap oil contracts are priced off the Brent crude oil price to mitigate a portion of the price risk associated with our Gulf of Mexico crude oil production.

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

As of March 31, 2014, our open commodity derivative contracts were as follows:

| Termination Period | | Swaps – Oil | | | | | |
|--------------------|-------------|--------------------------------|---|--------------------------------|---|--------------------------------|---|
| | | Priced off Brent (ICE) | | Priced off WTI (NYMEX) | | Priced off LLS (ARGUS) | |
| | | Notional Quantity (Bbls) | Weighted- Average Contract Price | Notional Quantity (Bbls) | Weighted- Average Contract Price | Notional Quantity (Bbls) | Weighted- Average Contract Price |
| 2014: | 2nd Quarter | 172,900 | \$ 97.38 | 353,000 | \$ 97.04 | 637,000 | \$ 97.83 |
| | 3rd Quarter | 165,600 | 97.38 | 62,000 | 97.01 | 828,000 | 97.69 |
| | 4th Quarter | 156,400 | 97.37 | — | — | 460,000 | 98.12 |
| | | <u>494,900</u> | \$ 97.38 | <u>415,000</u> | \$ 97.04 | <u>1,925,000</u> | \$ 97.84 |

Bbls = barrels

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

| | March 31, 2014 | December 31, 2013 |
|--------------------------|-------------------|----------------------|
| Prepaid and other assets | \$ — | \$ 141 |
| Accrued liabilities | 12,104 | 9,423 |

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

| | Three Months Ended March 31, | |
|-------------------------|---------------------------------|-----------------|
| | 2014 | 2013 |
| Derivative (gain) loss: | | |
| Realized | \$ 4,670 | \$ 4,271 |
| Unrealized | 2,822 | (903) |
| Total | <u>\$ 7,492</u> | <u>\$ 3,368</u> |

Offsetting Commodity Derivatives. As of March 31, 2014 and December 31, 2013, all of our derivative agreements allowed for netting of derivative gains and losses upon settlement. In general, the terms of the agreements provide for offsetting of amounts payable or receivable between us and the counterparty, at the election of both parties, for transactions that occur on the same date and in the same currency. If an event of default were to occur causing an acceleration of payment under our revolving bank credit facility, that event may also trigger an acceleration of settlement of our derivative instruments. If we were required to settle all of our open derivative instruments, we would be able to net payments and receipts per counterparty pursuant to the derivative agreements. Although our derivative agreements allow for netting, which would allow for recording assets and liabilities per counterparty on a net basis, we account for our derivative contracts on a gross basis per contract as either an asset or liability.

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

The following table provides a reconciliation of the gross assets and liabilities reflected in the balance sheet and the potential effects of master netting agreements on the fair value of open derivative contracts (in thousands):

| | March 31, 2014 | | December 31, 2013 | |
|--|----------------------|---------------------------|----------------------|---------------------------|
| | Derivative Assets | Derivative Liabilities | Derivative Assets | Derivative Liabilities |
| Gross amounts presented in the balance sheet | \$ — | \$ 12,104 | \$ 141 | \$ 9,423 |
| Amounts not offset in the balance sheet | — | — | (141) | (141) |
| Net Amounts | <u>\$ —</u> | <u>\$ 12,104</u> | <u>\$ —</u> | <u>\$ 9,282</u> |

5. Long-Term Debt

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

| | March 31, 2014 | December 31, 2013 |
|---|---------------------|----------------------|
| 8.50% Senior Notes | \$ 900,000 | \$ 900,000 |
| Debt premiums, net of amortization | 14,847 | 15,421 |
| Revolving bank credit facility | 279,000 | 290,000 |
| Total long-term debt | 1,193,847 | 1,205,421 |
| Current maturities of long-term debt | — | — |
| Long term debt, less current maturities | <u>\$ 1,193,847</u> | <u>\$ 1,205,421</u> |

At March 31, 2014 and December 31, 2013, the balance outstanding of our senior notes, which bear an annual interest rate of 8.50% and mature on June 15, 2019 (the “8.50% Senior Notes”), was classified as long-term at their carrying value. Interest on the 8.50% Senior Notes is payable semi-annually in arrears on June 15 and December 15. The estimated annual effective interest rate on the 8.50% Senior Notes is 8.4%, which includes amortization of debt issuance costs and premiums. We are subject to various financial and other covenants under the indenture governing the 8.50% Senior Notes and we were in compliance with those covenants as of March 31, 2014.

The Fifth Amended and Restated Credit Agreement (the “Credit Agreement”) governs our revolving bank credit facility and terminates on November 8, 2018. Borrowings under our revolving bank credit facility are secured by our oil and natural gas properties. Availability under such facility is subject to a semi-annual redetermination of our borrowing base that occurs in the spring and fall of each year and is calculated by our lenders based on their evaluation of our proved reserves and their own internal criteria.

At March 31, 2014 and December 31, 2013, we had \$0.4 million of letters of credit outstanding under the revolving bank credit facility. The estimated annual effective interest rate was 2.8% for the three months ended March 31, 2014 for borrowings under the revolving bank credit facility. The estimated annual effective interest rate includes amortization of debt issuance costs and excludes commitment fees and other costs. As of March 31, 2014, our borrowing base was \$800.0 million and our borrowing availability was \$520.6 million. See Note 12 for information regarding a change of the borrowing base to \$750.0 million subsequent to March 31, 2014.

Under the Credit Agreement, we are subject to various financial covenants calculated as of the last day of each fiscal quarter, including a minimum current ratio and a maximum leverage ratio, each as defined in the Credit Agreement. We were in compliance with all applicable covenants of the Credit Agreement as of March 31, 2014.

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

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

6. Fair Value Measurements

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

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

| | Hierarchy | March 31, 2014 | | December 31, 2013 | |
|--------------------------------|-----------|----------------|-------------|-------------------|-------------|
| | | Assets | Liabilities | Assets | Liabilities |
| Derivatives | Level 2 | \$ — | \$ 12,104 | \$ 141 | \$ 9,423 |
| 8.50% Senior Notes | Level 2 | — | 974,250 | — | 962,460 |
| Revolving bank credit facility | Level 2 | — | 279,000 | — | 290,000 |

As described in Note 4, our derivative financial instruments are reported in the balance sheet at fair value and changes in fair value are recognized currently in earnings. The 8.50% Senior Notes and revolving bank credit facility are reported in the balance sheet at their carrying value as described in Note 5.

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

In 2010, the W&T Offshore, Inc. Amended and Restated Incentive Compensation Plan (the “Plan”) was approved by our shareholders and amendments to the Plan were approved by our shareholders in May 2013. As allowed by the Plan, during the three months ended March 31, 2014, and in 2013 and 2012, the Company granted restricted stock units (“RSUs”) to certain of its employees. RSUs are a long-term compensation component of the Plan, which are granted to only certain employees, and are subject to adjustments at the end of the applicable performance period based on the achievement of certain predetermined criteria. In addition to share-based compensation, the Company may grant to its employees cash-based incentive awards, which are a short-term component of the Plan and are based on the Company and the employee achieving certain pre-defined performance criteria.

During the three months ended March 31, 2014, RSUs granted were subject to a combination of performance criteria, which was comprised of: (i) net income before income tax expense, net interest expense, depreciation, depletion, amortization, accretion and certain other items (“Adjusted EBITDA”) for 2014 and (ii) Adjusted EBITDA as a percent of total revenue (“Adjusted EBITDA Margin”) for 2014. Adjustments range from 0% to 100% dependent upon actual results compared against pre-defined performance levels.

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

During 2012, RSUs granted were subject to a combination of performance criteria, which was comprised of: (i) earnings per share for 2012; and (ii) the Company’s TSR ranking against peer companies’ TSR for 2012, 2013 and January 1, 2014 to October 31, 2014. Pursuant to the Plan, discretionary authority was exercised for certain non-executive employees, which reduced the forfeitures that would have occurred through application of the pre-defined performance measurement.

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

All RSUs granted to date are subject to employment-based criteria and vesting occurs in December of the second year after the grant. For example, the RSUs granted during 2012 will vest in December 2014 to eligible employees.

The compensation related to the 2013 annual incentive plan for the Chief Executive Officer (“CEO”) was determined based on pre-defined company and individual performance measures pursuant to the terms of his award and was settled in shares of common stock in March 2014. The 2014 annual incentive plan award for the CEO will be settled in shares of common stock based on a price of \$14.66 per share, subject to pre-defined performance measures and approval of the Compensation Committee. As the number of shares cannot be determined and a grant has not yet been made, the CEO’s 2014 award is accounted for as a liability award and adjusted to fair value using the Company’s closing price at the end of each reporting period. The performance measures for the CEO’s award were the same as the performance measures established for the other eligible Company employees for 2014 and 2013, respectively.

Under the Director Compensation Plan, restricted stock was granted to the Company’s non-employee directors during 2013 and prior years. The restricted stock is subject to service conditions and vesting occurs at the end of specified service periods.

At March 31, 2014, there were 5,036,436 shares of common stock available for issuance in satisfaction of awards under the Plan and 519,379 shares of common stock available for issuance in satisfaction of awards under the Director Compensation Plan. The shares available for both plans are reduced when restricted stock or common stock is granted. RSUs will reduce the shares available in the Plan only when RSUs are settled in shares of common stock. Although the Company has the option to settle RSUs in stock or cash at vesting, only common stock has been used to settle vested RSUs to date.

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

Awards Based on Restricted Stock. As of March 31, 2014, all of the unvested shares of restricted stock (“Restricted Shares”) outstanding were issued to the non-employee directors. Restricted Shares are subject to forfeiture until vested and cannot be sold, transferred or disposed of during the restricted period. The holders of Restricted Shares generally have the same rights as a shareholder of the Company with respect to such Restricted Shares, including the right to vote and receive dividends or other distributions paid with respect to the Restricted Shares. The fair value of Restricted Shares was estimated by using the Company’s closing price on the grant date.

Subject to the satisfaction of service conditions, the outstanding Restricted Shares issued to the non-employee directors as of March 31, 2014 are expected to vest as follows:

| | Restricted Shares |
|-------|------------------------------|
| 2014 | 19,445 |
| 2015 | 15,245 |
| 2016 | 9,150 |
| Total | 43,840 |

There were no grants, forfeitures or vesting of Restricted Shares during the three months ended March 31, 2014 and 2013.

Awards Based on Restricted Stock Units. As of March 31, 2014, the Company had outstanding RSUs issued to certain employees. As described above, the RSUs granted during the three months ended March 31, 2014 are subject to pre-defined performance measures which cannot be determined at this time; therefore, no portion has been determined to be eligible for vesting as of March 31, 2014. A portion of the RSUs granted during 2013 and 2012 remains subject to certain pre-defined performance measures of TSR for the defined periods in 2014 and 2015; therefore, this portion may be adjusted upon determination of the respective performance. These RSU adjustments related to TSR performance will not affect unrecognized expense, as the fair value of the portion related to market-based awards (TSR) was established at the date of grant (described below) and actual performance does not affect expense recognition for this portion. The portion of RSUs subject to performance measurement and adjustment ranges are disclosed in the second table below.

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

The fair value for the RSUs granted during the three months ended March 31, 2014 was determined using the Company's closing price on the grant date. The fair value for the 2013 RSUs was determined separately for the component related to the Company specific performance measures (Adjusted EBITDA and Adjusted EBITDA Margin) and the component related to TSR targets. The fair value of the 2013 RSUs component related to the Company specific performance measures was determined using the Company's closing price on the grant date. The fair value for the 2013 RSUs component related to TSR targets was determined by using a Monte Carlo simulation probabilistic model. The inputs used in the probabilistic model for the Company and the peer companies were: average closing stock prices during January 2013; risk-free interest rates using the London Interbank Offered Rate ("LIBOR") ranging from 0.27% to 0.91% over the service period; expected volatilities ranging from 30% to 63%; expected dividend yields ranging from 0.0% to 3.1%; and correlation factors ranging from (84%) to 95%. The expected volatilities, expected dividends and correlation factors were developed using historical data.

A methodology similar to that employed for the 2013 RSUs was used to determine the fair value for the 2012 RSUs. The inputs used in the probabilistic model for the Company and the peer companies were: average closing stock prices during January 2012; risk-free interest rates using the LIBOR ranging from 0.15% to 0.72% over the service period; expected volatilities ranging from 33% to 74%; expected dividend yields ranging from 0.0% to 2.5%; and correlation factors ranging from (67%) to 94%. The expected volatilities, expected dividends and correlation factors were developed using historical data.

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

A summary of activity in 2014 related to RSUs is as follows:

| | Restricted Stock Units | |
|------------------------------|------------------------|---|
| | Units | Weighted-Average Grant Date Fair Value Per Unit |
| Nonvested, December 31, 2013 | 1,331,753 | \$ 14.96 |
| Granted | 1,150,233 | 16.82 |
| Vested | — | — |
| Forfeited | (12,521) | 15.10 |
| Nonvested, March 31, 2014 | <u>2,469,465</u> | <u>\$ 15.82</u> |

All of the outstanding RSUs are subject to the satisfaction of service conditions and a portion of the outstanding RSUs are also subject to pre-defined performance measurements. The RSUs outstanding as of March 31, 2014 potentially eligible to vest are listed in the table below:

| | RSUs |
|--|------------------|
| 2014 - subject to service requirements | 355,864 |
| 2014 - subject to service and other requirements (1) | 67,399 |
| 2015 - subject to service requirements | 713,547 |
| 2015 - subject to service and other requirements (2) | 182,422 |
| 2016 - subject to service and other requirements (3) | 1,150,233 |
| Total | <u>2,469,465</u> |

- (1) In addition to service requirements, these RSUs are also subject to TSR performance requirements not yet measureable, with awards ranging from 0% to 150% of amounts granted.
- (2) In addition to service requirements, these RSUs are also subject to TSR performance requirements not yet measureable, with awards ranging from 0% to 200% of amounts granted.
- (3) In addition to service requirements, these RSUs are also subject to Company specific performance requirements not yet measureable, with awards ranging from 0% to 100% of amounts granted.

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

The grant date fair value of RSUs granted during the three months ended March 31, 2014 was \$19.4 million. There were no grants of RSUs during the three months ended March 31, 2013. During the three months ended March 31, 2014 and 2013, there was no vesting of RSUs.

Awards Based on Common Stock. A grant and issuance of 42,547 shares of common stock was made in March 2014 to the CEO pursuant to the terms of his 2013 annual incentive compensation award. The number of shares was determined after deductions for withholding and payroll taxes and the shares were valued at the Company's closing price as of the date of grant.

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

| | Three Months Ended | |
|--|--------------------|-----------------|
| | March 31, | |
| | 2014 | 2013 |
| Share-based compensation expense from: | | |
| Restricted stock | \$ 99 | \$ 99 |
| Restricted stock units | 2,537 | 2,156 |
| Common stock | 1,122 | — |
| Total | <u>\$ 3,758</u> | <u>\$ 2,255</u> |
| Share-based compensation tax benefit: | | |
| Tax benefit computed at the statutory rate | <u>\$ 1,315</u> | <u>\$ 789</u> |

Unrecognized Share-Based Compensation. As of March 31, 2014, unrecognized share-based compensation expense related to our awards of Restricted Shares, RSUs and common stock was \$0.4 million, \$27.0 million and \$0.9 million, respectively. Unrecognized share-based compensation expense will be recognized through April 2016 for Restricted Shares, November 2016 for RSUs and February 2015 for awards based on common shares.

Cash-Based Incentive Compensation. As defined by the Plan, annual incentive awards may be granted to eligible employees and payable in cash. (In the case of the award to the CEO, the grant for 2013 payable in 2014 was paid in shares of common stock as described above.) These awards are performance-based awards consisting of one or more business criteria or individual performance criteria and a targeted level or levels of performance with respect to each of such criteria. Generally, the performance period is the calendar year and determination and payment is made in cash in the first quarter of the following year.

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

| | Three Months Ended | |
|--|--------------------|-----------------|
| | March 31, | |
| | 2014 | 2013 |
| Share-based compensation included in: | | |
| General and administrative (1) | \$ 3,758 | \$ 2,255 |
| Cash-based incentive compensation included in: | | |
| Lease operating expense | 1,302 | 1,393 |
| General and administrative (1) | 1,781 | 3,530 |
| Total charged to operating income | <u>\$ 6,841</u> | <u>\$ 7,178</u> |

- (1) Reclassified \$0.7 million from cash-based incentive compensation expense to share-based compensation expense in the three months ended March 31, 2014 related to the CEO's 2013 award.

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

8. Income Taxes

Income tax expense of \$6.6 million and \$14.9 million was recorded during the three months ended March 31, 2014 and 2013, respectively. Our effective tax rate for the three months ended March 31, 2014 was 37.3% and differed from the federal statutory rate of 35.0% primarily as a result of state income taxes and other permanent items. The effective tax rate for the three months ended March 31, 2013 was 35.9% and differed from the federal statutory rate primarily as a result of state income taxes.

During 2013, we received refunds of \$59.1 million, of which \$9.5 million of these refunds have been accounted for as unrecognized tax benefits. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. During the three months ended March 31, 2014 and 2013, we had less than \$0.1 million of accrued interest expense related to our unrecognized tax benefit. As of March 31, 2014 and December 31, 2013, we had a valuation allowance related to state net operating losses. The realization of these assets depends on recognition of sufficient future taxable income in specific tax jurisdictions in which those temporary differences or net operating losses are deductible. The tax years from 2010 through 2013 remain open to examination by the tax jurisdictions to which we are subject.

9. 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 | |
|---|--------------------|------------------|
| | March 31, | |
| | 2014 | 2013 |
| Net income | \$ 11,189 | \$ 26,618 |
| Less portion allocated to nonvested shares | 120 | 281 |
| Net income allocated to common shares | <u>\$ 11,069</u> | <u>\$ 26,337</u> |
| Weighted-average common shares outstanding | <u>75,556</u> | <u>75,206</u> |
| Basic and diluted earnings per common share | \$ 0.15 | \$ 0.35 |
| Shares excluded as anti-dilutive (weighted-average) | — | 870 |

10. Dividends

During the three months ended March 31, 2014 and 2013, we paid regular cash dividends per common share of \$0.10 and \$0.08, respectively. On May 6, 2014, our board of directors declared a cash dividend of \$0.10 per common share, payable on June 4, 2014 to shareholders of record on May 23, 2014.

11. Contingencies

Notice of Suspension and Debarment. In November 2013, W&T Offshore, Inc., the Parent Company, received a Notice of Suspension and Proposed Debarment and a Notice of Clean Water Act Listing from the U.S. Environmental Protection Agency (the "EPA"). The Notices were directed to only the Parent Company and do not name or apply to our wholly-owned subsidiaries. The first Notice suspends the Parent Company and proposes a three year debarment from participation in future federal contracts, including future federal oil and gas leases, and assistance activities and renders the Parent Company ineligible to receive any federal contracts or approved subcontracts or to act as an agent or representative on behalf of another in such transaction, or receive certain federal benefits. The second Notice provides a narrower prohibition on federal contracts or benefits for the Parent Company. The Notices stemmed from the Parent Company's previously disclosed plea agreement and corporate conviction on two criminal counts as described in Item 8, *Financial Statements and Supplementary Data*, in our Annual Report on Form 10-K for the year end December 31, 2013.

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

The Notices prevent the Parent Company from obtaining federal oil and gas leases, whether at a future lease sale or an existing lease by assignment. The Notices do not affect current or future drilling or production operations or the existing lease ownership of the Parent Company.

The Company does not believe that the regulatory requirements for suspension and debarment exist. The Company has corrected the issues leading to the 2009 offenses that form the basis for suspension and debarment and has been and remains a responsible operator. Suspension is not necessary to protect the Government's business interests. The Company believes the EPA action fails to recognize the Company's compliance with the plea agreement referenced above, our demonstration that the conditions which gave rise to the violations have been corrected and that the Company is a responsible operator acting under a comprehensive environmental and safety compliance program. We have had continuing discussions with the EPA Suspension and Debarment Officials and made filings to contest the limitations in both Notices and seek to remove the suspension in a cooperative fashion as soon as practicable. The timing and ultimate result of these efforts, however, cannot be predicted at this time.

Disqualification of waiver concerning certain supplemental bonding requirements from the Bureau of Ocean Energy Management ("BOEM") In November and December 2013, W&T Offshore, Inc. received letters from the BOEM claiming that it no longer qualifies for a waiver of certain supplemental bonding requirements for potential offshore decommissioning, plugging, and abandonment liabilities. These letters pertain to the Parent Company's prior supplemental bonding waiver. Our wholly-owned subsidiary, Energy VI, is not exempt from supplemental bonding under BOEM's procedures and therefore such wholly-owned subsidiary provides supplemental bonding for its plugging and abandonment liabilities. The supplemental bonding requirements are separate and distinct from the suspension and debarment issue described above. The letters notified the Parent Company that it must provide supplemental bonding on certain of its offshore leases, rights of way and easements in the Gulf of Mexico. We believe that this action is without basis and inconsistent with regulatory requirements. We have had and continue to have discussions with representatives of the BOEM regarding this decision in an attempt to resolve this issue. We are also discussing potential additional supplemental bonding requirements that may be required to be met in the event that the BOEM's decision regarding the Parent Company's supplemental bonding waiver is not modified or reversed. While these discussions remain ongoing, in order to preserve our rights, in January 2014 we filed a Petition for Stay Pending Appeal and Request for Interim Relief with the U.S. Department of Interior's Board of Land Appeals. The petition seeks a stay of any supplemental bonding requirements pending the appeal and to reverse BOEM's revocation of W&T Offshore, Inc.'s waiver of supplemental bonding requirements. Initially, we were granted a stay until February 15, 2014 in response to our petition and recently we were granted a stay until June 15, 2014 to facilitate ongoing negotiations. We continue to believe that the Parent Company qualifies for a supplemental bonding waiver.

The Parent Company has transferred certain assets together with associated ARO liability to our wholly-owned subsidiary, Energy VI. These actions were taken to assist the Parent Company in its efforts to obtain from the BOEM a continuation of the waiver of supplemental bonding for the Parent Company. We believe these efforts should result in the BOEM's continuation of our waiver of supplemental bonding. These actions have caused us to obtain additional supplemental bonds for Energy VI related to the ARO for the transferred properties, incurring approximately \$0.9 million of additional bond fees. Similar bond fees will be required every year the bonds are in effect until the properties are plugged and abandoned. To date, letters of credit have not been required to secure supplemental bonding for Energy VI, but it is possible that letters of credit may be required in the future. The revolving bank credit facility allows for the issuance of up to \$300.0 million of letters of credit. If we were required to post letters of credit for this purpose, this would utilize a portion of our borrowing capacity available under our revolving bank credit facility.

Notification by ONRR of fine for non-compliance. In December 2013 and January 2014, we were notified by the Office of Natural Resources Revenue ("ONRR") of an underpayment of royalties on certain Federal offshore oil and gas leases that cumulatively approximated \$30,000 over several years, which represents 0.0045% of royalty payments paid by us during the same period of the underpayment. In March 2014, we received notice from the ONRR of a statutory fine of \$2.3 million relative to such underpayment, which is substantially in excess of the underpayment. We believe the fine is excessive and extreme considering the circumstances and in relation to the underpayment itself. On April 23, 2014, we filed a request for a hearing on the record and a general denial of ONRR's allegations contained in the notice. We intend to contest the fine to the fullest extent possible. As no amount has been determined as more likely than any other within the range of possible resolutions, no amount has been accrued as of March 31, 2014 per authoritative guidance. However, we cannot state with certainty that our estimate of the exposure is accurate concerning this matter.

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

Insurance Claims. During the fourth quarter of 2012, underwriters of W&T's excess liability policies ("Excess Policies") (Indemnity Insurance Company of North America, New York Marine & General Insurance Company, Navigators Insurance Company, XL Specialty Insurance Company and Liberty Mutual Insurance Co.) filed declaratory judgment actions in the United States District Court for the Southern District of Texas seeking a determination that our Excess Policies do not cover removal-of-wreck and debris claims arising from Hurricane Ike to the extent we have first exhausted the limits of our Energy Package (defined as certain insurance policies relating to our oil and gas properties which includes named windstorm coverage) with only removal-of-wreck and debris claims. The court consolidated the various suits filed by the underwriters. In January 2013, we filed a motion for summary judgment seeking the court's determination that such Excess Policies do not require us to exhaust the limits of our Energy Package policies with only removal-of-wreck and debris claims. In July 2013, the District Court ruled in favor of the underwriters, adopting their position that the Excess Policies cover removal-of-wreck and debris claims only to the extent the limits of our Energy Package policies have been exhausted with removal-of-wreck and debris claims. We disagree with the Court's ruling and have appealed the decision. As of March 31, 2014, we had not filed any claims under such Excess Policies; however, claims were filed subsequent to March 31, 2014. The amount in dispute is estimated at approximately \$46.0 million, of which substantially all has been incurred. Removal-of-wreck costs are recorded in *Oil and natural gas properties and equipment* on the Condensed Consolidated Balance Sheets. If we are successful in our appeal, any recoveries from claims made on these Excess Policies will be recorded as reductions in this line item, which will reduce our DD&A rate.

Royalties. In 2009, the Company recognized \$5.3 million in 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 the calculations and support related to this usage fee, and in the third quarter of 2010, we were notified that the ONRR had disallowed approximately \$4.7 million of the reductions taken. We recorded a reduction to other revenue of \$4.7 million in the third quarter of 2010 to reflect this disallowance; however, we disagree with the position taken by the ONRR and we are pursuing our claim to resolve the matter.

Other Claims. We are a party to various pending or threatened claims and complaints seeking damages or other remedies concerning our commercial operations and other matters in the ordinary course of our business. In addition, claims or contingencies may arise related to matters occurring prior to our acquisition of properties or related to matters occurring subsequent to our sale of properties. In certain cases, we have indemnified the sellers of properties we have acquired, and in other cases, we have indemnified the buyers of properties we have sold. We are also subject to federal and state administrative proceedings conducted in the ordinary course of business. Although we can give no assurance about the outcome of pending legal and federal or state administrative proceedings and the effect such an outcome may have on us, 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.

Contingent Liability Recorded. There were minimal expenses recognized related to accrued and settled claims, complaints and fines for the three months ended March 31, 2014 and 2013. As of March 31, 2014 and December 31, 2013, we have recorded \$0.1 million and \$0.2 million, respectively, which are included in *Accrued liabilities* on the Condensed Consolidated Balance Sheets, for the loss contingencies matters in the normal course of business.

12. Subsequent Events

Borrowing Base. Effective April 17, 2014, the borrowing base and the amount available for borrowing under the revolving bank credit facility was changed to \$750.0 million. There were no changes to the terms of the Credit Agreement, such as the maturity date, interest rates, covenants or collateral.

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

13. Supplemental Guarantor Information

Our payment obligations under the 8.50% Senior Notes and the Credit Agreement (see Note 6) are fully and unconditionally guaranteed by certain of our wholly-owned subsidiaries, including W&T Energy VI, LLC and W&T Energy VII, LLC (together, the “Guarantor Subsidiaries”). W&T Energy VII, LLC does not currently have any active operations or contain any assets. Guarantees of the 8.50% Senior Notes will be released under certain circumstances, including:

(1) in connection with any sale or other disposition of all or substantially all of the assets of a Guarantor Subsidiary (including by way of merger or consolidation) to a person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary (as such term is defined in the indenture governing the 8.50% Senior Notes) of the Company, if the sale or other disposition does not violate the “Asset Sales” provisions of the indenture;

(2) in connection with any sale or other disposition of the capital stock of such Guarantor Subsidiary to a person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary of the Company, if the sale or other disposition does not violate the “Asset Sales” provisions of the indenture and the Guarantor Subsidiary ceases to be a subsidiary of the Company as a result of such sales or disposition;

(3) if such Guarantor Subsidiary is a Restricted Subsidiary and the Company designates such Guarantor Subsidiary as an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture;

(4) upon Legal Defeasance or Covenant Defeasance (as such terms are defined in the indenture) or upon satisfaction and discharge of the indenture;

(5) upon the liquidation or dissolution of such Guarantor Subsidiary, provided no event of default has occurred and is continuing; or

(6) at such time as such Guarantor Subsidiary is no longer required to be a Guarantor Subsidiary of the 8.50% Senior Notes as described in the indenture, provided no event of default has occurred and is continuing.

The following unaudited condensed consolidating financial information presents the financial condition, results of operations and cash flows of the Parent Company and the Guarantor Subsidiaries, together with consolidating adjustments necessary to present the Company’s results on a consolidated basis.

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

Condensed Consolidating Balance Sheet as of March 31, 2014

| | Parent Company | Guarantor Subsidiaries | Eliminations | Consolidated W&T Offshore, Inc. |
|---|---------------------|---------------------------|-----------------------|---------------------------------------|
| (In thousands) | | | | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 20,335 | \$ — | \$ — | \$ 20,335 |
| Receivables: | | | | |
| Oil and natural gas sales | 66,314 | 27,623 | — | 93,937 |
| Joint interest and other | 27,588 | — | — | 27,588 |
| Income tax | 92,708 | — | (89,553) | 3,155 |
| Total receivables | 186,610 | 27,623 | (89,553) | 124,680 |
| Prepaid expenses and other assets | 21,769 | 5,246 | — | 27,015 |
| Total current assets | 228,714 | 32,869 | (89,553) | 172,030 |
| Property and equipment – at cost: | | | | |
| Oil and natural gas properties and equipment | 6,624,335 | 819,398 | — | 7,443,733 |
| Furniture, fixtures and other | 21,633 | — | — | 21,633 |
| Total property and equipment | 6,645,968 | 819,398 | — | 7,465,366 |
| Less accumulated depreciation, depletion and amortization | 4,862,077 | 340,889 | — | 5,202,966 |
| Net property and equipment | 1,783,891 | 478,509 | — | 2,262,400 |
| Restricted deposits for asset retirement obligations | 39,961 | — | — | 39,961 |
| Other assets | 780,337 | 518,958 | (1,279,082) | 20,213 |
| Total assets | <u>\$ 2,832,903</u> | <u>\$ 1,030,336</u> | <u>\$ (1,368,635)</u> | <u>\$ 2,494,604</u> |
| Liabilities and Shareholders' Equity | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 113,459 | \$ 1,885 | \$ — | \$ 115,344 |
| Undistributed oil and natural gas proceeds | 37,968 | 344 | — | 38,312 |
| Asset retirement obligations | 66,080 | 2,599 | — | 68,679 |
| Accrued liabilities | — | 133,251 | (89,553) | 43,698 |
| Total current liabilities | 217,507 | 138,079 | (89,553) | 266,033 |
| Long-term debt, less current maturities | 1,193,847 | — | — | 1,193,847 |
| Asset retirement obligations, less current portion | 210,959 | 74,761 | — | 285,720 |
| Deferred income taxes | 130,811 | 57,372 | — | 188,183 |
| Other liabilities | 532,455 | — | (518,958) | 13,497 |
| Shareholders' equity: | | | | |
| Common stock | 1 | — | — | 1 |
| Additional paid-in capital | 406,752 | 509,326 | (509,326) | 406,752 |
| Retained earnings | 164,738 | 250,798 | (250,798) | 164,738 |
| Treasury stock, at cost | (24,167) | — | — | (24,167) |
| Total shareholders' equity | 547,324 | 760,124 | (760,124) | 547,324 |
| Total liabilities and shareholders' equity | <u>\$ 2,832,903</u> | <u>\$ 1,030,336</u> | <u>\$ (1,368,635)</u> | <u>\$ 2,494,604</u> |

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

Condensed Consolidating Balance Sheet as of December 31, 2013

| | Parent Company | Guarantor Subsidiaries | Eliminations | Consolidated W&T Offshore, Inc. |
|---|---------------------|---------------------------|-----------------------|---------------------------------------|
| (In thousands) | | | | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 15,800 | \$ — | \$ — | \$ 15,800 |
| Receivables: | | | | |
| Oil and natural gas sales | 75,486 | 21,266 | — | 96,752 |
| Joint interest and other | 27,984 | — | — | 27,984 |
| Income tax | 124,393 | — | (121,273) | 3,120 |
| Total receivables | 227,863 | 21,266 | (121,273) | 127,856 |
| Prepaid expenses and other assets | 23,674 | 6,272 | — | 29,946 |
| Total current assets | 267,337 | 27,538 | (121,273) | 173,602 |
| Property and equipment – at cost: | | | | |
| Oil and natural gas properties and equipment | 6,770,396 | 568,701 | — | 7,339,097 |
| Furniture, fixtures and other | 21,431 | — | — | 21,431 |
| Total property and equipment | 6,791,827 | 568,701 | — | 7,360,528 |
| Less accumulated depreciation, depletion and amortization | 4,784,932 | 299,772 | — | 5,084,704 |
| Net property and equipment | 2,006,895 | 268,929 | — | 2,275,824 |
| Restricted deposits for asset retirement obligations | 37,421 | — | — | 37,421 |
| Other assets | 574,280 | 427,619 | (981,444) | 20,455 |
| Total assets | <u>\$ 2,885,933</u> | <u>\$ 724,086</u> | <u>\$ (1,102,717)</u> | <u>\$ 2,507,302</u> |
| Liabilities and Shareholders' Equity | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 144,492 | \$ 720 | \$ — | \$ 145,212 |
| Undistributed oil and natural gas proceeds | 41,735 | 372 | — | 42,107 |
| Asset retirement obligations | 75,977 | 1,808 | — | 77,785 |
| Accrued liabilities | 28,000 | 121,273 | (121,273) | 28,000 |
| Total current liabilities | 290,204 | 124,173 | (121,273) | 293,104 |
| Long-term debt, less current maturities | 1,205,421 | — | — | 1,205,421 |
| Asset retirement obligations, less current portion | 238,270 | 38,367 | — | 276,637 |
| Deferred income taxes | 170,419 | 7,723 | — | 178,142 |
| Other liabilities | 441,009 | — | (427,621) | 13,388 |
| Shareholders' equity: | | | | |
| Common stock | 1 | — | — | 1 |
| Additional paid-in capital | 403,564 | 317,776 | (317,776) | 403,564 |
| Retained earnings | 161,212 | 236,047 | (236,047) | 161,212 |
| Treasury stock, at cost | (24,167) | — | — | (24,167) |
| Total shareholders' equity | 540,610 | 553,823 | (553,823) | 540,610 |
| Total liabilities and shareholders' equity | <u>\$ 2,885,933</u> | <u>\$ 724,086</u> | <u>\$ (1,102,717)</u> | <u>\$ 2,507,302</u> |

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

Condensed Consolidating Statement of Income for the Three Months Ended March 31, 2014

| | Parent Company | Guarantor Subsidiaries | Eliminations | Consolidated W&T Offshore, Inc. |
|---|-------------------|---------------------------|--------------|---------------------------------------|
| | (In thousands) | | | |
| Revenues | \$ 176,657 | \$ 77,859 | \$ — | \$ 254,516 |
| Operating costs and expenses: | | | | |
| Lease operating expenses | 46,148 | 9,469 | — | 55,617 |
| Production taxes | 1,992 | — | — | 1,992 |
| Gathering and transportation | 3,984 | 1,312 | — | 5,296 |
| Depreciation, depletion, amortization and accretion | 81,105 | 42,201 | — | 123,306 |
| General and administrative expenses | 21,364 | 2,224 | — | 23,588 |
| Derivative loss | 7,492 | — | — | 7,492 |
| Total costs and expenses | 162,085 | 55,206 | — | 217,291 |
| Operating income | 14,572 | 22,653 | — | 37,225 |
| Earnings of affiliates | 14,751 | — | (14,751) | — |
| Interest expense: | | | | |
| Incurred | 21,293 | 167 | — | 21,460 |
| Capitalized | (1,905) | (167) | — | (2,072) |
| Income before income tax expense | 9,935 | 22,653 | (14,751) | 17,837 |
| Income tax expense | (1,254) | 7,902 | — | 6,648 |
| Net income | \$ 11,189 | \$ 14,751 | \$ (14,751) | \$ 11,189 |

Condensed Consolidating Statement of Income for the Three Months Ended March 31, 2013

| | Parent Company | Guarantor Subsidiaries | Eliminations | Consolidated W&T Offshore, Inc. |
|---|-------------------|---------------------------|--------------|---------------------------------------|
| | (In thousands) | | | |
| Revenues | \$ 209,528 | \$ 49,694 | \$ — | \$ 259,222 |
| Operating costs and expenses: | | | | |
| Lease operating expenses | 54,529 | 4,812 | — | 59,341 |
| Production taxes | 1,789 | — | — | 1,789 |
| Gathering and transportation | 3,662 | 782 | — | 4,444 |
| Depreciation, depletion, amortization and accretion | 86,416 | 22,456 | — | 108,872 |
| General and administrative expenses | 19,604 | 1,483 | — | 21,087 |
| Derivative loss | 3,368 | — | — | 3,368 |
| Total costs and expenses | 169,368 | 29,533 | — | 198,901 |
| Operating income | 40,160 | 20,161 | — | 60,321 |
| Earnings of affiliates | 13,100 | — | (13,100) | — |
| Interest expense: | | | | |
| Incurred | 21,234 | — | — | 21,234 |
| Capitalized | (2,433) | — | — | (2,433) |
| Income before income tax expense | 34,459 | 20,161 | (13,100) | 41,520 |
| Income tax expense | 7,841 | 7,061 | — | 14,902 |
| Net income | \$ 26,618 | \$ 13,100 | \$ (13,100) | \$ 26,618 |

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

Condensed Consolidating Statement of Cash Flows for the Three Months Ended March 31, 2014

| | Parent Company | Guarantor Subsidiaries | Eliminations | Consolidated W&T Offshore, Inc. |
|---|-------------------|---------------------------|----------------|---------------------------------------|
| (In thousands) | | | | |
| Operating activities: | | | | |
| Net income | \$ 11,189 | \$ 14,751 | \$ (14,751) | \$ 11,189 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation, depletion, amortization and accretion | 81,105 | 42,201 | — | 123,306 |
| Amortization of debt issuance costs and premium | 187 | — | — | 187 |
| Share-based compensation | 3,758 | — | — | 3,758 |
| Derivative loss | 7,492 | — | — | 7,492 |
| Cash payments on derivative settlements (realized) | (4,670) | — | — | (4,670) |
| Deferred income taxes | 10,722 | (4,077) | — | 6,645 |
| Earnings of affiliates | (14,751) | — | 14,751 | — |
| Changes in operating assets and liabilities: | | | | |
| Oil and natural gas receivables | 9,172 | (6,357) | — | 2,815 |
| Joint interest and other receivables | 2,286 | — | — | 2,286 |
| Income taxes | (12,014) | 11,979 | — | (35) |
| Prepaid expenses and other assets | (51,920) | (36,588) | 91,217 | 2,709 |
| Asset retirement obligations settlements | (11,936) | (4,406) | — | (16,342) |
| Accounts payable, accrued liabilities and other | 69,230 | 1,137 | (91,217) | (20,850) |
| Net cash provided by operating activities | <u>99,850</u> | <u>18,640</u> | <u>—</u> | <u>118,490</u> |
| Investing activities: | | | | |
| Investment in oil and natural gas properties and equipment | (71,788) | (23,279) | — | (95,067) |
| Investment in subsidiary | (4,639) | — | 4,639 | — |
| Purchases of furniture, fixtures and other | (260) | — | — | (260) |
| Net cash used in investing activities | <u>(76,687)</u> | <u>(23,279)</u> | <u>4,639</u> | <u>(95,327)</u> |
| Financing activities: | | | | |
| Borrowings of long-term debt – revolving bank credit facility | 92,000 | — | — | 92,000 |
| Repayments of long-term debt – revolving bank credit facility | (103,000) | — | — | (103,000) |
| Dividends to shareholders | (7,563) | — | — | (7,563) |
| Other | (65) | — | — | (65) |
| Investment from parent | — | 4,639 | (4,639) | — |
| Net cash provided (used) in financing activities | <u>(18,628)</u> | <u>4,639</u> | <u>(4,639)</u> | <u>(18,628)</u> |
| Increase in cash and cash equivalents | 4,535 | — | — | 4,535 |
| Cash and cash equivalents, beginning of period | 15,800 | — | — | 15,800 |
| Cash and cash equivalents, end of period | <u>\$ 20,335</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 20,335</u> |

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

Condensed Consolidating Statement of Cash Flows for the Three Months Ended March 31, 2013

| | Parent Company | Guarantor Subsidiaries | Eliminations | Consolidated W&T Offshore, Inc. |
|---|-------------------|---------------------------|--------------|---------------------------------------|
| | (In thousands) | | | |
| Operating activities: | | | | |
| Net income | \$ 26,618 | \$ 13,100 | \$ (13,100) | \$ 26,618 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation, depletion, amortization and accretion | 86,416 | 22,456 | — | 108,872 |
| Amortization of debt issuance costs and premium | 447 | — | — | 447 |
| Share-based compensation | 2,255 | — | — | 2,255 |
| Derivative loss | 3,368 | — | — | 3,368 |
| Cash payments on derivative settlements (realized) | (4,271) | — | — | (4,271) |
| Deferred income taxes | 11,774 | 733 | — | 12,507 |
| Earnings of affiliates | (13,100) | — | 13,100 | — |
| Changes in operating assets and liabilities: | | | | |
| Oil and natural gas receivables | 172 | 251 | — | 423 |
| Joint interest and other receivables | 25,875 | — | — | 25,875 |
| Income taxes | (3,957) | 6,329 | — | 2,372 |
| Prepaid expenses and other assets | 4,911 | (24,155) | 24,155 | 4,911 |
| Asset retirement obligations settlements | (23,311) | (153) | — | (23,464) |
| Accounts payable, accrued liabilities and other | 34,191 | (115) | (24,155) | 9,921 |
| Net cash provided by operating activities | <u>151,388</u> | <u>18,446</u> | <u>—</u> | <u>169,834</u> |
| Investing activities: | | | | |
| Investment in oil and natural gas properties and equipment | (118,180) | (18,446) | — | (136,626) |
| Purchases of furniture, fixtures and other | (114) | — | — | (114) |
| Net cash used in investing activities | <u>(118,294)</u> | <u>(18,446)</u> | <u>—</u> | <u>(136,740)</u> |
| Financing activities: | | | | |
| Borrowings of long-term debt – revolving bank credit facility | 112,000 | — | — | 112,000 |
| Repayments of long-term debt – revolving bank credit facility | (139,000) | — | — | (139,000) |
| Dividends to shareholders | (6,020) | — | — | (6,020) |
| Other | (42) | — | — | (42) |
| Net cash used in financing activities | <u>(33,062)</u> | <u>—</u> | <u>—</u> | <u>(33,062)</u> |
| Increase in cash and cash equivalents | 32 | — | — | 32 |
| Cash and cash equivalents, beginning of period | 12,245 | — | — | 12,245 |
| Cash and cash equivalents, end of period | <u>\$ 12,277</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 12,277</u> |

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"), which 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, 2013 and may be discussed or updated from time to time in subsequent reports filed with the SEC. 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 and references to "Parent Company" are solely to W&T Offshore, Inc.

Overview

We are an independent oil and natural gas producer with operations offshore in the Gulf of Mexico and onshore in the Permian Basin of West Texas. We have grown through acquisitions, exploration and development and currently hold working interests in approximately 67 producing offshore fields in federal and state waters (62 producing and five fields capable of producing). We currently have under lease approximately 1.2 million gross acres, including approximately 0.6 million gross acres on the Gulf of Mexico Shelf, approximately 0.5 million gross acres in the deepwater and approximately 50,000 gross acres onshore in West Texas. A substantial majority of our daily production is derived from wells we operate offshore. Our interest in fields, leases, structures and equipment are primarily owned by the Parent Company, W&T Offshore, Inc. and our wholly-owned subsidiary, W&T Energy VI, LLC. In managing our business, we are concerned primarily with maximizing return on shareholders' equity. To accomplish this primary goal, we focus on profitably increasing production and finding oil and gas reserves at a favorable cost. We strive to grow our reserves and production through acquisitions and our drilling programs. We have focused on acquiring properties where we can develop an inventory of drilling prospects that will enable us to continue to add reserves post-acquisition.

Our financial condition, cash flow and results of operations are significantly affected by the volume of our oil, NGLs and natural gas production and the prices that we receive for such production. Our production volumes for the three months ended March 31, 2014 were comprised of 39.7% oil and condensate, 12.0% NGLs and 48.3% natural gas, determined using the energy equivalency ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel ("Bbl") of crude oil, condensate or NGLs. The conversion ratio does not assume price equivalency, and the price per one barrel oil equivalent ("Boe") for oil, NGLs and natural gas may differ significantly. In the three months ended March 31, 2014, revenues from the sale of oil and NGLs made up 74.9% of our total revenues compared to 83.3% in the same period of 2013. For the three months ended March 31, 2014, our combined total production of oil, condensate, NGLs and natural gas was 3.1% lower on a Boe basis than during the same period in 2013, and our total revenues were 1.8% lower in the three months ended March 31, 2014, driven primarily by lower oil production and lower oil prices, partially offset by higher natural gas prices. See section *Results of Operations – Three Months Ended March 31, 2014 Compared to the Three Months Ended March 31, 2013* for additional information on our revenues and production.

In November and December 2013, we acquired from Callon certain oil and gas leasehold interests in the Gulf of Mexico. The Callon Properties consist of a 15% working interest in the Medusa field (deepwater Mississippi Canyon blocks 582 and 583), interest in associated production facilities and various interests in other non-operated fields. The operating results of the Callon Properties are included in our results for the three months ended March 31, 2014. The results for the three months ended March 31, 2013 do not include the Callon Properties' operations as this period precedes the acquisition date. See Part I, Item 1, *Financial Statements - Note 2 - Acquisitions and Divestitures*, for additional information.

The infrastructure to transport crude oil within the United States has seen a major change over the past few years. A number of pipelines have been built and completed, reversed flowed, or expanded to move crude oil from Cushing, Oklahoma (a major crude oil storage hub). Transportation capacity has also been added in major producing regions like the Permian Basin to move crude oil to the U.S. Gulf Coast rather than to Cushing. Both of these events have helped relieve the excess crude oil that built up in Cushing, which in turn allowed WTI pricing to increase relative to Brent up until October 2013. Since that time, the premiums that the Gulf of Mexico crude oil had been experiencing declined as the crude being moved to the U.S. Gulf Coast increased and imports continued. The structural changes that have occurred as a result of new pipeline and rail infrastructure are expected to impact U.S. Gulf Coast crude oil pricing going forward. Rail receiving capacity has also been expanding rapidly on the East Coast and to some extent on the U.S. Gulf Coast. The spread between Brent and WTI continues to be relatively wide due to high U.S. crude oil inventory caused by both crude oil imports and increased domestic production. Spreads are expected to remain volatile and certain U.S. crudes are selling at a discount to WTI due to excess supplies of certain crudes in certain areas of the country.

During the three months ended March 31, 2014, our average realized oil sales price continued at historically high levels, but were 8.0% lower than those realized in the same period of 2013. Two comparable oil price benchmarks are the unweighted average daily posted spot price of WTI crude oil, which increased 4.6% from the comparable period (from \$94.33 per barrel to \$98.68 per barrel), and the unweighted average daily posted spot price of Brent crude oil, which decreased 3.8% (from \$112.47 per barrel to \$108.14 per barrel) from the comparable period, as reported from the U.S. Energy Information Administration ("EIA"). WTI is frequently used to value domestically produced crude oil, and the majority of our 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. Most of our oil production is from offshore Gulf of Mexico, which is comprised of various crudes including Light Louisiana Sweet, Heavy Louisiana Sweet, Poseidon and others. Over the past several years, we had been realizing high premiums on our Gulf Coast crudes, but these premiums decreased significantly during the fourth quarter of 2013. The premiums realized have recovered partially during the first quarter of 2014, but are lower compared to the first quarter of 2013. For example, the premiums for LLS and Heavy Louisiana Sweet for the first quarter of 2014 ranged from \$5.00 to \$10.00 per barrel above WTI compared to \$18.00 to \$22.00 per barrel for the first quarter of 2013, which was a major factor in the decrease of our average realized oil sales price in the first quarter of 2014 when compared to the first quarter of 2013. In addition, our average realized prices from our oil production in West Texas incurs discounts for transportation costs incurred by the purchaser, with larger discounts applied where the oil is trucked due to lack of pipeline access.

Oil prices are affected by world events, such as political unrest in the Middle East, the threat of hostilities, demand changes in various countries and world economic growth. Thus, crude oil prices will likely continue to be volatile. For the first quarter of 2014, WTI crude oil prices ranged from \$91.00 to \$105.00 per barrel and Brent crude oil prices ranged from \$106.00 to \$111.00 per barrel. The EIA estimates that the average WTI crude spot price was \$99.00 per barrel during the first quarter of 2014 and will be \$95.00 per barrel in 2014 and \$90.00 per barrel in 2015. EIA estimates the average Brent crude oil spot price was \$108.00 per barrel during the first quarter of 2014 and projects the average price to be \$105.00 in 2014 and \$101.00 per barrel in 2015. EIA expects world-wide supply and consumption for oil and liquids fuels to be fairly equal for 2014 and 2015, resulting in minor inventory withdrawals or builds.

Our average realized NGLs sales prices increased 11.7% during the first quarter of 2014 compared to the first quarter of 2013. The two major components of our NGLs are ethane and propane, which typically make up over 70% of a NGL barrel. During the first quarter of 2014, prices for domestic ethane increased 36% and domestic propane prices increased 30% from the comparable 2013 period. Price changes for other domestic NGLs were relatively unchanged. Colder weather was a major factor in the increase of the price of propane. Other market factors influenced the temporary increase in the price of ethane, as it is not used directly as a heating fuel. However, because ethane has been left in the natural gas stream due to the price weakness, the increase in natural gas prices that occurred during the first quarter also led to an increase in ethane prices. Ethane prices have since declined during April 2014. As long as the crude to natural gas price ratio remains wide (as measured on a six to one energy equivalency), the production of NGLs may continue to be high relative to historical norms and would, in turn, suggest downward price pressure on the price of ethane. Many natural gas processing facilities are re-injecting ethane back into the natural gas stream after processing due to excess ethane supplies. This in turn has increased natural gas supplies and negatively impacted natural gas pricing.

Prices for natural gas in the U.S. improved during the first quarter of 2014 versus the comparable 2013 period largely due to above-average storage withdrawals in response to the colder winter weather in 2014 and higher industrial demand. The amount of heating degree days for the winter was 13% higher than last year, which was a primary causal factor for the increased demand. Natural gas prices are more affected by domestic issues (as compared to crude oil prices), such as weather (particularly extreme heat or cold), supply, local demand issues, other fuel competition (coal) and domestic economic conditions, and they have historically been subject to substantial fluctuation. During the first quarter of 2014, the average realized sales price for our natural gas production increased 48.5% from the comparable 2013 period to \$5.02 per Mcf. A comparable benchmark is the Henry Hub unweighted average daily posted spot price, which increased 48.4% from the comparable period.

Although the price of natural gas has increased significantly on a percentage basis, it is still weak from an overall economic standpoint and we expect continued weakness in natural gas prices for a number of reasons, including (i) producers continuing to drill in order to secure and to hold large lease positions before expiration, particularly in shale and similar resource plays, (ii) natural gas continuing to be produced as a by-product in conjunction with the high level of oil drilling, (iii) increasing availability of liquefied natural gas, (iv) production efficiency gains being achieved in the shale gas areas resulting from better hydraulic fracturing, horizontal drilling and production techniques and (v) re-injecting ethane into the natural gas stream as indicated above, which increases the natural gas supply.

Per EIA, natural gas working inventories at the end of the first quarter of 2014 were estimated at 965 billion cubic feet (“Bcf”), which is 44% below the comparable 2013 period. EIA estimates the Henry Hub natural gas spot price was \$5.06 per million British thermal unit (“MMBtu”) in the first quarter of 2014 and forecasts \$4.44 per MMBtu for 2014 and \$4.14 per MMBtu in 2015. Even with the colder winter, EIA projects U.S. supply to be higher than consumption for both 2014 and 2015.

According to Baker Hughes, the U.S. natural gas rig count was 439 at the beginning of 2013. The natural gas rig count decreased during 2013 to 372 rigs at the end of 2013 and decreased further to 316 at the end of March 2014. Despite the decline in rigs drilling specifically for natural gas, the U.S. has experienced a year over year increase in natural gas production due to the many factors previously enumerated. Oil wells have increased natural gas production as a by-product, with the number of rigs searching for oil increasing from 1,318 at the beginning of 2013 to 1,378 at the end of 2013, and further increasing to 1,498 as of the end of March 2014. In the Gulf of Mexico, there were 48 rigs (29 oil, 19 natural gas) at the beginning of 2013, 59 rigs (39 oil, 20 natural gas) at the end of 2013 and 49 rigs (36 oil and 13 natural gas) as of the end of March 2014. EIA estimates the percentage of electricity fueled by natural gas to be 25% in the first quarter of 2014 compared to 26% in the first quarter of 2013, and forecasts the percentage at 27% in 2014 and 28% in 2015, influenced largely by the expected price of natural gas compared to the expected price of coal. Industry sources have indicated that a natural gas price above \$4.50 per Mcf for some period of time will probably cause even more power producers to switch back to coal from natural gas, which in effect creates limits to how far natural gas prices can rise until such time as demand for natural gas increases from other sources. The demand for natural gas is expected to continue to increase as the announced petrochemical facilities are constructed and power producers convert to consuming natural gas to reduce emissions or comply with new emission limitations.

Should prices decline for oil, NGLs and natural gas in the future, it would negatively impact our future oil, NGLs and natural gas revenues, earnings and liquidity, and could result in ceiling test write-downs of the carrying value of our oil and natural gas properties, reductions in proved reserves, issues with financial ratio compliance, and a reduction of the borrowing base associated with our Credit Agreement, depending on the severity of such declines. If any of these events were to occur and were significant, it may limit the willingness of financial institutions and investors to provide capital to us and others in the oil and natural gas industry.

As reported and discussed in more detail in Part I, Item 1, *Financial Statements – Note 11 – Contingencies*, of this Form 10-Q, W&T Offshore, Inc., the Parent Company, received a Notice of Suspension and Proposed Debarment and a Notice of Clean Water Act Listing from the EPA. The Notices apply to the Parent Company but are not directed to our wholly-owned subsidiaries. Accordingly, under the current scope of the Notices, the drilling and leasing operations of our wholly-owned subsidiary, Energy VI, have not been materially impacted by the debarment and suspension, nor has the Parent Company’s drilling, exploration and production operations on its existing Federal leases.

Also as reported and discussed in more detail in Part I, Item 1, *Financial Statements – Note 11 – Contingencies*, of this Form 10-Q, in late 2013, W&T Offshore, Inc. received letters from the BOEM claiming that W&T Offshore, Inc. no longer qualified for a waiver of certain supplemental bonding for potential offshore decommissioning, plugging and abandonment liabilities. We have transferred a number of assets and related ARO liabilities to one of our wholly-owned subsidiaries, Energy VI, to assist the Parent Company in its efforts to obtain from the BOEM a continuation of the waiver of supplemental bonding requirements for the Parent Company. This has resulted in increased annual bond fees of \$0.9 million for our bonded subsidiary. To date, letters of credit have not been required to secure supplemental bonding for Energy VI, but it is possible that letters of credit may be required in the future. The revolving bank credit facility allows for the issuance of up to \$300.0 million of letters of credit. If we were required to post letters of credit for this purpose, this would utilize a portion of our borrowing capacity available under our revolving bank credit facility. While this exposure cannot be specifically quantified at this time, we believe our revolving bank credit facility has sufficient letter of credit capacity if needed. We do not believe any reduced borrowing capacity resulting from any future letters of credit, if required to support such supplemental bonding of our subsidiaries, will materially impact our liquidity or substantially limit our future operations.

As described in Part I, Item 1, *Financial Statements – Note 1 – Basis of Presentation*, of this Form 10-Q, in the fourth quarter of 2013, we identified that we had been receiving an erroneous conversion factor from a third party that had the effect of understating natural gas production in prior periods. The amounts included in the adjustment recognized in the fourth quarter 2013 period which relate to the first quarter of 2013 were: an increase in natural gas production volumes of 264 MMcf (with no corresponding increase in revenue); an increase in DD&A expense of \$0.8 million; and a decrease in net income of \$0.5 million. The additional volumes would have revised prices to \$57.00 per Boe from the reported \$57.53 per Boe.

Many changes in laws, regulations, guidance, interpretations and policy continue to be proposed and issued in our industry. The process for obtaining offshore drilling permits, especially deepwater drilling permits, has expanded and lengthened in the past few years. The most significant regulation changes in recent years are regulations related to potential environmental impacts, spill response documentation, compliance reviews, operator practices related to safety and implementing a safety and environmental management system. The new regulations and increased review process increases the time to obtain drilling permits and increases the cost of operations. Also, the regulations have changed related to plugging and abandonment of offshore wells and related infrastructure considerably, driving up both the time and cost to perform the work. As these new regulations and guidance continue to evolve, we cannot estimate the cost and impact to our business at this time.

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 | | | |
|---|---------------------|------------|-------------|---------|
| | March 31, | | | |
| | 2014 ⁽¹⁾ | 2013 | Change | % |
| (In thousands, except percentages and per share data) | | | | |
| Financial: | | | | |
| Revenues: | | | | |
| Oil | \$ 170,705 | \$ 197,564 | \$ (26,859) | (13.6)% |
| NGLs | 20,022 | 18,327 | 1,695 | 9.2% |
| Natural gas | 63,338 | 42,937 | 20,401 | 47.5% |
| Other | 451 | 394 | 57 | 14.5% |
| Total revenues | 254,516 | 259,222 | (4,706) | (1.8)% |
| Operating costs and expenses: | | | | |
| Lease operating expenses | 55,617 | 59,341 | (3,724) | (6.3)% |
| Production taxes | 1,992 | 1,789 | 203 | 11.3% |
| Gathering and transportation | 5,296 | 4,444 | 852 | 19.2% |
| Depreciation, depletion, amortization and accretion | 123,306 | 108,872 | 14,434 | 13.3% |
| General and administrative expenses | 23,588 | 21,087 | 2,501 | 11.9% |
| Derivative loss | 7,492 | 3,368 | 4,124 | 122.4% |
| Total costs and expenses | 217,291 | 198,901 | 18,390 | 9.2% |
| Operating income | 37,225 | 60,321 | (23,096) | (38.3)% |
| Interest expense, net of amounts capitalized | 19,388 | 18,801 | 587 | 3.1% |
| Income before income tax expense | 17,837 | 41,520 | (23,683) | (57.0)% |
| Income tax expense | 6,648 | 14,902 | (8,254) | (55.4)% |
| Net income | \$ 11,189 | \$ 26,618 | \$ (15,429) | (58.0)% |
| Basic and diluted earnings per common share | \$ 0.15 | \$ 0.35 | \$ (0.20) | (57.1)% |

(1) In the fourth quarter of 2013, we acquired the Callon Properties.

| | Three Months Ended | | | |
|---|---------------------|-----------------|----------------|--------------|
| | March 31, | | | |
| | 2014 ⁽¹⁾ | 2013 | Change | % |
| Operating: | | | | |
| Net sales: | | | | |
| Oil (MBbls) | 1,732 | 1,844 | (112) | (6.1)% |
| NGLs (MBbls) | 523 | 535 | (12) | (2.2)% |
| Natural gas (MMcf) | 12,618 | 12,720 | (102) | (0.8)% |
| Total oil equivalent (MBoe) ⁽²⁾ | 4,358 | 4,499 | (141) | (3.1)% |
| Total natural gas equivalents (MMcfe) ⁽²⁾ | 26,150 | 26,993 | (843) | (3.1)% |
| Average daily equivalent sales (Boe/day) ⁽²⁾ | 48,427 | 49,988 | (1,561) | (3.1)% |
| Average daily equivalent sales (Mcf/day) ⁽²⁾ | 290,560 | 299,928 | (9,368) | (3.1)% |
| Average realized sales prices: | | | | |
| Oil (\$/Bbl) | \$ 98.56 | \$ 107.15 | \$ (8.59) | (8.0)% |
| NGLs (\$/Bbl) | 38.26 | 34.25 | 4.01 | 11.7% |
| Natural gas (\$/Mcf) | 5.02 | 3.38 | 1.64 | 48.5% |
| Oil equivalent (\$/Boe) ⁽²⁾ | 58.29 | 57.53 | 0.76 | 1.3% |
| Natural gas equivalent (\$/Mcf) ⁽²⁾ | 9.72 | 9.59 | 0.13 | 1.4% |
| Average per Boe (\$/Boe) ⁽²⁾ : | | | | |
| Lease operating expenses | \$ 12.76 | \$ 13.19 | \$ (0.43) | (3.3)% |
| Gathering and transportation | 1.22 | 0.99 | 0.23 | 23.2% |
| Production costs | 13.98 | 14.18 | (0.20) | (1.4)% |
| Production taxes | 0.46 | 0.40 | 0.06 | 15.0% |
| Depreciation, depletion, amortization and accretion | 28.29 | 24.20 | 4.09 | 16.9% |
| General and administrative expenses | 5.41 | 4.69 | 0.72 | 15.4% |
| | <u>\$ 48.14</u> | <u>\$ 43.47</u> | <u>\$ 4.67</u> | <u>10.7%</u> |
| Average per Mcfe (\$/Mcf) ⁽²⁾ : | | | | |
| Lease operating expenses | \$ 2.13 | \$ 2.20 | \$ (0.07) | (3.2)% |
| Gathering and transportation | 0.20 | 0.16 | 0.04 | 25.0% |
| Production costs | 2.33 | 2.36 | (0.03) | (1.3)% |
| Production taxes | 0.08 | 0.07 | 0.01 | 14.3% |
| Depreciation, depletion, amortization and accretion | 4.72 | 4.03 | 0.69 | 17.1% |
| General and administrative expenses | 0.90 | 0.78 | 0.12 | 15.4% |
| | <u>\$ 8.03</u> | <u>\$ 7.24</u> | <u>\$ 0.79</u> | <u>10.9%</u> |

(1) In the fourth quarter of 2013, we acquired the Callon Properties.

(2) 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.

Volume measurements:

Boe - barrel of oil equivalent

Boe/day - barrel of oil equivalent per day

MBbls - thousand barrels for crude oil, condensate or NGLs

MBoe - thousand barrels of oil equivalent

MMcf - million cubic feet

MMcfe - million cubic feet equivalent

Mcf/day - thousand cubic feet equivalent per day

| | Three Months Ended | | | |
|--|--------------------|------|--------|---------|
| | March 31, | | | |
| | 2014 | 2013 | Change | % |
| Total number of wells drilled (gross): | | | | |
| Offshore | 2 | 2 | — | — |
| Onshore | 10 | 14 | (4) | (28.6)% |
| Total number of productive wells drilled (gross) | | | | |
| Offshore | 2 | 1 | 1 | 100.0% |
| Onshore | 9 | 14 | (5) | (35.7)% |

Three Months Ended March 31, 2104 Compared to the Three Months Ended March 31, 2013

Revenues. Total revenues decreased \$4.7 million to \$254.5 million for the first quarter of 2014 as compared to the same period in 2013. Oil revenues decreased \$26.9 million, NGLs revenues increased \$1.7 million, natural gas revenues increased \$20.4 million and other revenues increased by \$0.1 million. The oil revenue decrease was attributable to a 6.1% decrease in sales volumes and an 8.0% decrease in the average realized sales price to \$98.56 per barrel for the first quarter of 2014 from \$107.15 per barrel for the prior year period. The NGLs revenue increase was attributable to an 11.7% increase in the average realized sales price to \$38.26 per barrel for the first quarter of 2014 from \$34.25 per barrel for the prior year period and partially offset by a decrease of 2.2% in sales volumes from the comparable period. The increase in natural gas revenue resulted from a 48.5% increase in the average realized natural gas sales price to \$5.02 per Mcf in the first quarter of 2014 from \$3.38 per Mcf for the prior year period and partially offset by a 0.8% decrease in sales volumes from the comparable period. Production was negatively impacted for all commodities from natural production declines, production deferrals affecting various fields and the divestitures of certain fields in 2013. Conversely, we experienced an increase in production from the new A-5 well at Mississippi Canyon 243 (Matterhorn), the A-14 well at Ship Shoal 349 (Mahogany) and the acquisition of the Callon Properties. The production deferrals were attributable to third-party pipeline outages, platform maintenance, and various operational issues. We estimate production deferrals were 4.0 billion cubic feet equivalent (“Bcfe”) during the first quarter of 2014. Specifically, production at Mississippi Canyon 506 (Wrigley) continues to be deferred as a result of maintenance at Shell’s Cognac platform and comprised approximately 25% of the deferred production. Production from selected wells at Ship Shoal 349 (Mahogany) was deferred due to closure of a pipeline for eight days from high pressure. In addition, weather was a contributing factor for production declines at West Texas and at selected offshore fields. The balance of the deferred production occurred at multiple locations. During the first quarter of 2013, we experienced production deferrals of 1.4 Bcfe primarily at Mississippi Canyon 506 (Wrigley).

Revenues from oil and liquids as a percent of our total revenues were 74.9% for the first quarter of 2014 compared to 83.3% for the comparable 2013 period. Our average realized NGLs sales price as a percent of our average realized oil sales price increased to 38.8% for the first quarter of 2014 compared to 32.0% for the comparable 2013 period.

Lease operating expenses. Lease operating expenses, which includes base lease operating expenses, insurance premiums, workovers and maintenance on our facilities, and hurricane related expenses and insurance reimbursements, decreased \$3.7 million to \$55.6 million in the first quarter of 2014 compared to the prior year period. On a per Boe basis, lease operating expenses decreased to \$12.76 per Boe during the first quarter 2014 compared to \$13.19 per Boe during the comparable 2013 period. On a component basis, insurance premiums decreased \$2.1 million. Hurricane related expenses and insurance reimbursements decreased \$0.9 million due to reimbursements received in the first quarter of 2014 and repair expenses incurred in the first quarter of 2013. The other components had lesser net variances, with facilities maintenance decreasing by \$0.6 million, base lease operating expenses decreasing by \$0.4 million, and workover expense increasing by \$0.3 million.

Production taxes. Production taxes increased \$0.2 million to \$2.0 million in the first quarter of 2014 compared to the prior year period primarily due to onshore activities and are currently not a large component of our operating costs. Most of our production is from federal waters where no production taxes are imposed, whereas onshore operations are subject to production taxes.

Gathering and transportation costs. Gathering and transportation costs increased \$0.9 million to \$5.3 million for the first quarter of 2014 compared to the prior year period primarily due to escalation in third-party transportation fees.

Depreciation, depletion, amortization and accretion. DD&A, including accretion for ARO, increased to \$28.29 per Boe for the first quarter of 2014 from \$24.20 per Boe in the prior year period. On a nominal basis, DD&A increased to \$123.3 million for the first quarter of 2014 from \$108.9 million in the prior year period. DD&A on a per Boe basis and nominal basis increased primarily due to increases in estimated future development costs made in the fourth quarter of 2013, and partially due to other increases to the full cost pool without significant changes to proved reserves.

General and administrative expenses. G&A increased to \$23.6 million for the first quarter of 2014 from \$21.1 million for the prior year period primarily due to increases in surety bond fees, contract labor and professional fees. G&A on a per Boe basis was \$5.41 per Boe for the first quarter of 2014, compared to \$4.69 per Boe for the prior year period.

Derivative loss. For the first quarter of 2014 and 2013, our derivative positions resulted in net losses of \$7.5 million and \$3.4 million, respectively, and relate to the change in the fair value of our crude oil commodity derivatives as a result of changes in crude oil prices. Although the contracts relate to production for the entire year, changes in the fair value for all open contracts are recorded currently. For the first quarter of 2014, the net loss was comprised of a \$4.7 million realized loss and a \$2.8 million unrealized loss. For the first quarter of 2013, the net loss consisted of a realized loss of \$4.3 million and an unrealized gain of \$0.9 million. For additional information about our derivatives, refer to Part I, Item 1, *Financial Statements – Note 4 – Derivative Financial Instruments*, of this Form 10-Q.

Interest expense. Interest expense incurred increased to \$21.5 million for the first quarter of 2014 from \$21.2 million for the prior year period. The aggregate principal amount of our 8.50% Senior Notes outstanding was \$900.0 million in both the first quarter of 2014 and 2013. During the first quarter of 2014 and 2013, \$2.1 million and \$2.4 million, respectively, of interest was capitalized to unevaluated oil and natural gas properties. The decrease is primarily attributable to reclassifying certain unevaluated properties to the full cost pool during the fourth quarter of 2013.

Income tax expense. Income tax expense was \$6.6 million for the first quarter of 2014 compared to \$14.9 million for the same period of 2013 with the decrease primarily attributable to lower pre-tax income. Our effective tax rate for the first quarter of 2014 was 37.3% and differed from the federal statutory rate of 35.0% primarily as a result of state income taxes and other permanent items. Our effective tax rate for the first quarter of 2013 was 35.9% and differed from the federal statutory rate of 35.0% primarily as a result of state income taxes.

Liquidity and Capital Resources

Our primary liquidity needs are to fund capital expenditures and strategic property acquisitions to allow us to replace our oil and natural gas reserves, repay outstanding borrowings and make related interest payments and pay dividends. We have funded such activities with cash on hand, net cash provided by operating activities, sales of property, securities offerings and bank borrowings. These sources of liquidity have historically been sufficient to fund our ongoing cash requirements.

Cash flow and working capital. Net cash provided by operating activities for the three months ended March 31, 2014 was \$118.5 million compared to \$169.8 million for the three months ended March 31, 2013. The change was primarily due to changes in working capital, due primarily to changes in joint interest receivables and accounts payable. Changes in cash flow from operations, excluding changes in working capital, were relatively minor, with lower revenues offset by lower lease operating expenses. Our combined average realized sales price per Boe was 1.3% higher than in the comparable 2013 period due to higher average realized natural gas sales prices. Our combined production of oil, NGLs and natural gas on a Boe basis during the three months ended March 31, 2014 decreased 3.1% from the comparable 2013 period.

Net cash used in investing activities during the three months ended March 31, 2014 and 2013 was \$95.3 million and \$136.7 million, respectively, which represents our investments in both offshore and onshore oil and gas properties. The decrease is primarily attributable to decreases in both onshore drilling and offshore activity. There were no acquisitions or divestitures of significance completed in either period.

Net cash used in financing activities was \$18.6 million and \$33.1 million during the three months ended March 31, 2014 and 2013, respectively. The net cash used during the three months ended March 31, 2014 was primarily attributable to net repayments of borrowings on our revolving bank credit facility of \$11.0 million and dividend payments of \$7.6 million. The net cash used in the three months ended March 31, 2013 was primarily attributable to net repayments of borrowings on our revolving bank credit facility and dividend payments.

At March 31, 2014, we had a cash balance of \$20.3 million and \$520.6 million of undrawn capacity available under the revolving bank credit facility, which had a borrowing base of \$800.0 million as of March 31, 2014. Effective April 17, 2014, our borrowing base was changed to \$750.0 million upon completion of the semi-annual redetermination by our lenders and on that date, the undrawn capacity was \$455.6 million. The undrawn capacity fluctuates based on borrowings and repayments, which can occur on a daily basis.

Credit Agreement and long-term debt. At March 31, 2014 and December 31, 2013, \$279.0 million and \$290.0 million, respectively, were outstanding under our revolving bank credit facility. During the three months ended March 31, 2014, the outstanding borrowings on our revolving bank credit facility ranged from \$279.0 million to \$323.0 million. At March 31, 2014 and December 31, 2013, \$900.0 million in aggregate principal amount of our 8.50% Senior Notes was outstanding. We believe that cash provided by operations, borrowings available under our revolving bank credit facility and other external sources of liquidity should be sufficient to fund our ongoing cash requirements, but additional financing could be required if we are successful in finding suitable acquisitions and for future development activities. For additional information about our long-term debt, refer to Part I, Item 1, *Financial Statements – Note 5 – Long-Term Debt*, of this Form 10-Q.

Availability under our revolving bank credit facility is subject to a semi-annual redetermination of our borrowing base that occurs in the spring and fall of each year and is calculated by our lenders based on their evaluation of our proved reserves and their own internal criteria. The Credit Agreement contains financial covenants calculated as of the last day of each fiscal quarter, including a minimum current ratio and a maximum leverage ratio, as defined in the Credit Agreement. We were in compliance with all applicable covenants of the Credit Agreement and all applicable covenants related to the 8.50% Senior Notes as of March 31, 2014.

Derivatives. From time to time, we use various derivative instruments to manage our exposure to commodity price risk from sales of our oil and natural gas and interest rate risk from floating interest rates on our revolving bank credit facility. As of March 31, 2014, our derivative instruments outstanding consisted of oil contracts relating to approximately 2.8 million barrels (“MMBbls”) of our anticipated production for the balance of 2014. See Part I, Item 1, *Financial Statements – Note 4 – Derivative Financial Instruments*, of this Form 10-Q for additional information.

Insurance Claims and Insurance Coverage. During 2008, Hurricane Ike caused substantial property damage. Substantially all the costs related to Hurricane Ike have been incurred and we submitted claims under our insurance policies effective at that time, of which \$149.6 million has been collected through March 31, 2014. We currently are in dispute with the underwriters of our Excess Policies related to the coverage of removal-of-wreck costs incurred due to Hurricane Ike. The amount in dispute is approximately \$46.0 million. Removal-of-wreck costs are recorded in *Oil and natural gas properties and equipment* on the Balance Sheets. See Part I, Item 1, *Financial Statements – Note 11 – Contingencies*, of this Form 10-Q for additional information.

We currently carry multiple layers of insurance coverage in our Energy Package 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. We have \$75.0 million of named windstorm (hurricane and tropical storm) coverage for certain of our offshore properties and wells and an additional \$75.0 million for certain properties and wells at our higher value fields. The well control, named windstorm and physical damage coverage is effective until June 1, 2014. A per-occurrence retention amount of \$30.0 million for named windstorm events must be satisfied by us before our insurers will indemnify us for losses and we co-insure 25% of our named windstorm coverage. We also have other smaller per-occurrence retention amounts for various other events. Coverage for pollution causing a negative environmental impact is provided under the well control and named windstorm sections of the policy.

We estimate that a substantial majority of our estimated future net revenues attributable to our Gulf of Mexico properties are covered under our current insurance policies for named windstorm damage. There are certain other properties we have decided not to cover for named windstorm damage as part of our risk assessment process.

Our general and excess liability policies, which were renewed and are effective until May 1, 2015, 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 Bureau of Safety and Environmental Enforcement (“BSEE”). We qualify to self-insure for \$54.0 million of this amount and the remaining \$96.0 million is covered by insurance.

Although we have not been informed otherwise, in the future, our insurers may not continue to offer this type and level of coverage to us, 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. However, we are not aware of any financial issues related to any of our insurance underwriters that would affect their ability to pay claims. We do not carry business interruption insurance.

See Part I, Item 1, *Financial Statements – Note 11 – Contingencies*, of this Form 10-Q for information related to notifications from the BOEM concerning supplemental bonding requirements

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 oil, NGLs and natural gas, acquisition opportunities, and the results of our exploration and development activities. The following table presents our capital expenditures for exploration, development and other leasehold costs and acquisitions:

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, | |
| | 2014 | 2013 |
| | (In thousands) | |
| Acquisition of Callon Properties (1) | \$ (169) | \$ — |
| Exploration (2) | 51,427 | 60,624 |
| Development (2) | 30,796 | 73,722 |
| Seismic, capitalized interest, other leasehold costs interest, other leasehold costs | 13,013 | 2,280 |
| Acquisitions and investments in oil and gas property/equipment | <u>\$ 95,067</u> | <u>\$ 136,626</u> |

(1) The amount in 2014 represents reductions to the purchase price for post-effective date adjustments.

(2) Reported geographically in the subsequent table.

The following table presents our exploration and development capital expenditures geographically:

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, | |
| | 2014 | 2013 |
| | (In thousands) | |
| Conventional shelf | \$ 18,625 | \$ 42,220 |
| Deepwater | 13,120 | 21,086 |
| Deep shelf | 21,968 | 21,237 |
| Onshore | 28,510 | 49,803 |
| Exploration and development capital expenditures | <u>\$ 82,223</u> | <u>\$ 134,346</u> |

Our capital expenditures for the three months ended March 31, 2014 and 2013 were financed by cash flow from operating activities, borrowings on our revolving bank credit facility and cash on hand.

The following table presents our wells drilled based on a completed basis:

| | Three Months Ended March 31, | | | |
|---------------------------|------------------------------|-------------|-----------|-------------|
| | 2014 | | 2013 | |
| | Gross | Net | Gross | Net |
| Development wells: | | | | |
| Offshore wells: | | | | |
| Productive | — | — | 1 | 1.0 |
| Non-productive | — | — | — | — |
| Onshore wells: | | | | |
| Productive | 4 | 4.0 | 11 | 11.0 |
| Non-productive | — | — | — | — |
| Total development wells | 4 | 4.0 | 12 | 12.0 |
| Exploration wells: | | | | |
| Offshore wells: | | | | |
| Productive | 2 | 1.2 | — | — |
| Non-productive | — | — | 1 | 1.0 |
| Onshore wells: | | | | |
| Productive | 5 | 5.0 | 3 | 2.9 |
| Non-productive | 1 | 1.0 | — | — |
| Total exploration wells | 8 | 7.2 | 4 | 3.9 |
| Total wells | 12 | 11.2 | 16 | 15.9 |

Exploration activities. Completion operations on the Mississippi Canyon 698 (Big Bend) well were finalized during the first quarter of 2014, with production dependent on connection to a host platform. The Mississippi Canyon 243 (Matterhorn) A-5 side-track well was brought online during the quarter and averaged over 1,000 Boe per day net during the quarter since coming online.

Acquisitions and funding. We intend to continue to pursue acquisitions and joint venture opportunities during 2014 and beyond should we identify attractive opportunities. For example, in the fourth quarter of 2013, we completed the acquisition of the Callon Properties as described in Part I, Item 1, *Financial Statements – Note 2 – Acquisitions and Divestitures*, of this Form 10-Q. We are actively evaluating opportunities and seek to complement our drilling and development projects with acquisitions providing acceptable rates of return.

Divestitures. Periodically, we sell properties as part of the management of our property portfolio. During the three months ended March 31, 2014, in East Texas at our Star Project, we have reassigned approximately 160,000 gross acres back to the original assignor. During the three months ended March 31, 2014, we did not have any divestitures. During 2013, we sold our interests in various fields. See Part I, Item 1, *Financial Statements – Note 2 – Acquisitions and Divestitures*, of this Form 10-Q for additional information.

Capital Expenditure Budget for 2014. Our total capital expenditure budget for 2014 currently is \$450.0 million, not including any potential acquisitions. The budget includes 42% for exploration, 52% for development and 6% for other items. Geographically, the budget is split 68% for offshore and 32% for onshore. During the three months ended March 31, 2014, we did not close on any significant acquisitions. We will continue to evaluate and bid on opportunities as they arise. We anticipate funding our 2014 capital budget, any potential acquisitions and other expenditures with cash flow from operating activities, cash on hand, borrowings under our revolving bank credit facility, divestitures and by accessing the capital markets to the extent necessary. For the portion of our capital budget related to drilling, our operating policy has been to fund these expenditures with cash flow provided by operations. Our 2014 capital budget is subject to change as conditions warrant. We strive to be as flexible as possible and believe this strategy holds the best promise for value creation, growth and managing the volatility inherent in our business.

Income taxes. During the three months ended March 31, 2014 and 2013, we made no income tax payments and did not receive any refunds. For the remainder of 2014, we expect a substantial amount of our income tax will be deferred and expect payments, if any, to be primarily related to alternative minimum tax. We have \$263.4 million of net operating loss carryforward (tax basis) available to offset future federal taxable income in 2014 and forward. We also have \$12.1 million of alternative minimum tax credit carryforwards available to be utilized in 2014 and forward.

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

Contractual obligations. Updated information on certain contractual obligations is provided in Part I, Item 1, *Financial Statements – Note 3 – Asset Retirement Obligations* and *Note 5 – Long-Term Debt*, of this Form 10-Q. As of March 31, 2014, drilling rig commitments were approximately \$21.9 million compared to \$21.5 million as of December 31, 2013. The current drilling rig commitments expire within one year from March 31, 2014. Except for scheduled utilization, other contractual obligations as of March 31, 2014 did not change materially from the disclosures in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K for the year ended December 31, 2013.

Critical Accounting Policies

Our significant accounting policies are summarized in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2013. Also refer to Part 1, Item 1 *Financial Statements – Note 1 – Basis of Presentation*, of this Form 10-Q.

Recent Accounting Pronouncements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the three months ended March 31, 2014 did not change materially from the disclosures in Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, of our Annual Report on Form 10-K for the year ended December 31, 2013. 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, 2013.

Commodity Price Risk. Our revenues, profitability and future rate of growth substantially depend upon market prices of oil, NGLs and natural gas, which fluctuate widely. Oil, NGLs and natural gas price declines and volatility could adversely affect our revenues, net cash provided by operating activities and profitability. We currently have open crude oil derivative contracts to manage a portion of our exposure to commodity price risk from sales of oil for the balance of 2014. As of March 31, 2014, these derivative contracts had a notional quantity of 2.8 MMBbls. We do not designate our commodity derivatives as hedging instruments. While these contracts are intended to reduce the effects of volatile oil prices, they may also limit future income from favorable price movements. See Part I, Item 1, *Financial Statements – Note 4 – Derivative Financial Instruments*, of this Form 10-Q for additional information.

Interest Rate Risk. As of March 31, 2014, we had \$279.0 million outstanding on our revolving bank credit facility. The revolving bank credit facility has a variable interest rate, which is primarily impacted by the rates for the LIBOR and the margin, which ranges from 1.75% to 2.75% depending on the amount outstanding. We currently do 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 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 March 31, 2014 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 March 31, 2014, 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 Part I, Item 1, *Financial Statements – Note 11 – Contingencies*, of this Form 10-Q for information on various legal matters.

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, 2013, 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. 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, 2013.

Item 6. Exhibits

The exhibits to this report are listed in the Exhibit Index.

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 May 7, 2014.

W&T OFFSHORE, INC.

By: /s/ JOHN D. GIBBONS
John D. Gibbons
Senior Vice President, Chief Financial Officer and Chief
Accounting Officer, duly authorized to sign on behalf of the registrant

EXHIBIT INDEX

| 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) |
| 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)) |
| 10.1*@ | Form of 2014 Executive Annual Incentive Award. |
| 10.2*@ | Form of 2014 RSU Executive Award. |
| 10.3*@ | Tracy W. Krohn 2014 Annual Award. |
| 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 herewith. |
| @ | Compensation agreement |
| ** | Furnished herewith. |

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

Executive Annual Incentive Award Agreement
For Fiscal Year 2014

This potential Annual Incentive Award (the "**Award**") is granted on March 27, 2014 (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;

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 2014 fiscal year;

WHEREAS, a copy of the Plan has been furnished to you and shall be deemed a part of this Agreement as if fully set forth herein; and

WHEREAS, you desire to accept the Award made pursuant to this Agreement.

NOW, THEREFORE, in consideration of and mutual covenants set forth herein and for other valuable consideration hereinafter set forth, the parties agree as follows:

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 a full time 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 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, 2014.

(f) **“Total Performance Score”** means the aggregate number of points 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.

3. **Effect of Award Agreement.** By signing this Agreement, you (a) acknowledge receipt of and represent that you have read and are familiar with this Agreement; (b) accept this Award subject to all of the terms and conditions of the Agreement and the Plan; and (c) agree to accept as binding, conclusive and final all decisions or interpretations of the Committee.

4. **Target Award.** You are hereby awarded a target Award of ___% of your Base Salary (referred to herein as your **Target Award**) subject to the terms and conditions set forth in the Plan and this Agreement. Subject to Sections 5 and 8 below, your Total Performance Score will determine whether you may receive an Award less than, equal to, or greater than your Target Award.

5. **Minimum and Maximum Performance Levels.** As a condition of payment of the Award, your Total Performance Score must reach 40 or above; Total Performance Scores of 0 through 39.99 shall not result in the payment of any portion of your Award. The maximum Total Performance Score you may be assigned shall not exceed 200, nor may the payout of your Award exceed 200% of your Target Award amount.

6. **Award Calculation.** Your Award will be calculated as follows:

(a) Based on your Total Performance Score, the payout amount of your Award will be determined using the chart below:

| Total Performance Score | Percentage of Target Award Paid to You |
|--------------------------------|---|
| 200 | 200% |
| 100 | 100% |
| 50 | 50% |
| 0 | 0% |

(b) **General Terms.**

(i) Payout multiples between the numbers 0 and 200 on the chart in Section 6(a) above 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.

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

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 the Base Salary you received during the Performance Period (the **“Pro-Rata Award”**). 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 reduce or eliminate your Award for any reason regardless of the amount of your Total Performance Score 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. 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.

11. 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.

12. 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.

13. 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.

14. 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.

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

16. 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.

17. 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.

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

19. 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.

20. Amendment. 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.

21. 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.

22. 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.

23. 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.

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

25. 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.

Executed by the Company as of the Award Date.

W&T Offshore, Inc.

/s/ Jamie L. Vazquez
Jamie L. Vazquez, President

Appendix A

2014 Annual Incentive Award

Performance Goals

The Performance Goals for your 2014 Annual Incentive Award shall be comprised of two equal portions: the “Business Criteria” and the “Company and Individual Performance Criteria.” The Business Criteria will comprise 50% of your potential Award, and the Company and Individual Performance Criteria will comprise the remaining 50% of your potential Award.

Your Total Performance Score will be calculated using the criteria and the scales below. 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 your Total Performance Score according to the aggregate number of points you receive from each of the scales below.

Part 1. Business Criteria

| Target Criteria | Percentage of Weight Relative to your Total Potential Award | Points |
|--|--|---------------|
| Production Growth: equivalent production at least 18.55 MMBoe (111.3 Bcfe) for YE 2014, but taking into account the effect of property sales, if applicable as deemed by the Compensation Committee. | 17.5% | 0-35 |
| Reserve Growth: Increase in reserves of at least 5% over 2013 YE reserves (~123.6 MMboe); but taking into effect the effect of property sales year over year, if applicable as deemed by the Compensation Committee. | 17.5% | 0-35 |
| F&D Costs: not to exceed \$22.50 per Boe (\$3.75 per Mcfe) at year end 2014 | 5% | 0-10 |
| LOE & G&A: 2014 LOE and G&A per Boe of production no more than a 5% increase in LOE and G&A per Mcfe of production, measured against 2013 LOE and G&A per Boe of production (excluding hurricane expenses, insurance credits for such expenses and/or other extraordinary event) | 10% | 0-20 |
| <i>Total</i> | 50% | 100 |

The number of points you receive on each individual scale shall be determined as follows, using a straight-line interpolation:

Production Growth – Total Production for 2014; but taking into account the effect of property sales, if applicable as deemed by the Compensation Committee. (Measurement rounded to nearest 1/10th decimal)

| Performance Level | Points |
|--|---------------|
| Maximum: greater than 21.6 MMBoe (129.9 Bcfe) | 35 |
| Target: 18.55 MMBoe (111.3 Bcfe) | 17.5 |
| Threshold: 18 MMBoe (108 Bcfe) | 8.75 |
| Below Threshold | 0 |

Reserve Growth – In 2014, increase in reserves over 2013 Year-end reserves of 117.7 MMBoe; and taking into consideration the effect of property sales year over year, if applicable as deemed by the Compensation Committee. (Measurement rounded to the nearest 1/10th decimal)

| Performance Level | Points |
|--|---------------|
| Maximum: increase in reserves of greater than 12.5% over 2013 YE reserves (~132.4 MMBoe) | 35 |
| Target: increase in reserves of greater than 5% over 2013 YE reserves (~123.6 MMBoe) | 17.5 |
| Threshold: increase in reserves of greater than 2% over 2013 YE reserves (~120 MMBoe) | 8.75 |
| Below Threshold | 0 |

F&D Costs: for 2014 not to exceed a specified dollar amount per Boe at year end 2014. “F&D” is defined as the total capital dollars spent in 2014 plus changes in ARO; divided by proved reserves added for the year 2014.

| Performance Level | Points |
|--|---------------|
| Maximum: F&D costs not to exceed \$15 per Boe (\$2.50 per Mcfe) at year end 2014 | 10 |
| Target: F&D costs not to exceed \$22.50 per Boe (\$3.75 per Mcfe) at year end 2014 | 5 |
| Threshold: not to exceed \$24.00 per Boe (\$4.00 per Mcfe) at year end 2014 | 2.5 |
| Below Threshold | 0 |

(d) Combined LOE & G&A: 2014 LOE and G&A per Boe of production no more than a percentage increase in LOE and G&A per Boe of production, measured against 2013 LOE and G&A per Boe (being \$19.62/Boe) of production (both measurements excluding hurricane expenses, insurance credits for such expenses and/or other extraordinary event).

| Performance Level | Points |
|--|---------------|
| Maximum: less than a 1% increase in LOE and G&A per Boe of production, measured against 2013 LOE and G&A per Boe of production (~\$19.82/Boe) | 20 |
| Target: no more than a 5% increase in LOE and G&A per Boe of production, measured against 2013 LOE and G&A per Boe of production (~\$20.60/Boe) | 10 |
| Threshold: no more than a 7% increase in LOE and G&A per Boe of production, measured against 2013 LOE and G&A per Boe of production (~\$20.99/Boe) | 5 |
| Below Threshold | 0 |

Part 2. Company and Individual Performance Criteria

| Criteria | Percentage of Weight Relative to your Total Potential Award | Points |
|---|--|---------------|
| Overall Company Performance Conditions | | |
| 2014 Adjusted EBITDA, target of \$525 million, but taking into account the effect of property sales, if applicable as deemed by the Compensation Committee. | 20% | 0-40 |
| 2014 Adjusted EBITDA Margin Percentage, a target of 60% | 15% | 0-30 |
| | | |
| | | |
| Individual Performance Conditions | | |
| Individual Performance as assessed by management for year 2014 | 15% | 0-30 |
| | | |
| <i>Total for Overall Company Performance Conditions and Individual Performance Conditions Combined</i> | 50% | 100 |

The number of points you receive on each individual scale shall be determined as follows, on straight-line interpolation:

(a) Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Accretion), but taking into account the effect of property sales, if applicable for YE2014 as deemed by the Compensation Committee. 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, gains and losses on the sale of assets and other items that are, in the sole discretion of the Compensation Committee appropriate adjustment to reflect normalized results. (Measurement rounded to nearest million)

| Performance Level | Points |
|---|---------------|
| Maximum: Adjusted EBITDA of \$700 million | 40 |
| Target: Adjusted EBITDA of \$525 million | 20 |
| Threshold: Adjusted EBITDA of \$475 million | 10 |
| Below Threshold | 0 |

(b) Adjusted EBITDA Margin Percentage YE 2014

(Measurement rounded to nearest 1/10th decimal)

| Performance Level | Points |
|---|---------------|
| Maximum: Adjusted EBITDA Margin Percentage greater than 65% YE 2014 | 30 |
| Target: Adjusted EBITDA Margin Percentage greater than 60% YE 2014 | 15 |
| Threshold: Adjusted EBITDA Margin Percentage greater than 58% YE 2014 | 7.5 |
| Below Threshold | 0 |

(c) Individual Performance in 2014, assessed by management

(Measurement rounded to nearest 1/10th decimal)

| Performance Level | Points |
|-------------------------------------|---------------|
| Maximum – Far Exceeded Expectations | 30 |
| Target – Exceeded Expectations | 15 |
| Threshold – Met expectations | 7.5 |
| Below Threshold | 0 |

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

2014 EXECUTIVE RESTRICTED STOCK UNIT AGREEMENT

This Agreement is made and entered into as of March 27, 2014 (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 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 and service providers of the Company;

WHEREAS, a copy of the Plan has been furnished to you and shall be deemed a part of this restricted stock unit award agreement ("*Agreement*") as if fully set forth herein and the terms capitalized but not defined herein shall have the meanings set forth in the Plan;

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;

WHEREAS, a copy of the Policy has been furnished to you and, as this Award (as defined below) shall be subject to the terms and conditions of the Policy, shall be deemed a part of this Agreement as if fully set forth herein; and

WHEREAS, you desire to accept the restricted stock unit award made pursuant to this Agreement.

NOW, THEREFORE, in consideration of and mutual covenants set forth herein and for other valuable consideration hereinafter set forth, the parties agree as follows:

1. **The Grant.** Subject to the conditions set forth below and the adjustment provisions of Section 3(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 (the "*Award*") consisting of _____ shares of restricted stock units in accordance with the terms and conditions set forth herein and in the Plan (the "*Restricted Stock Units*"), along with any additional rights related to the Restricted Stock Units as described in Section 2 of this Agreement. To the extent you commenced full time employment after the beginning of the initial performance period, the total number of Restricted Stock Units recited above has been adjusted to reflect that fact.

2. **Dividend Equivalents.** As of the Date of Grant above, this grant of Restricted Stock Units also includes a tandem grant of Dividend Equivalents with respect to each share of Restricted Stock Units granted to you pursuant to Section 1 of this Agreement; *provided, however*, that you shall not receive Dividend Equivalents for any distributions made with respect to a share of Stock prior to the satisfaction of the Performance Vesting Requirement (as defined below). In the event that the Performance Vesting Requirement is satisfied prior to the Vesting Date, you shall receive Dividend Equivalents for any distributions made with respect to a share of Stock for the period of time between the day the attainment of the Performance Vesting Requirement occurs and the Vesting Date, taking into account that an adjustment shall be made to the number of Dividend Equivalents granted to you to reflect any adjustments made to your Restricted Stock Units pursuant to Section 3(b) below. All Dividend Equivalents granted on and after the Date of Grant shall carry identical vesting restrictions as shall be attached to the Restricted Stock Units giving rise to such Dividend Equivalents, thus, if the Performance Vesting Requirement is not satisfied, all rights to Dividend Equivalents shall immediately cease. If a Restricted Stock Unit is forfeited, your tandem Dividend Equivalents with respect to such Restricted Stock Units shall automatically terminate at that time. Any Dividend Equivalents payment will be made on or promptly following the date on which the dividends are otherwise paid to the holders of Stock; *provided, however*, in no event shall the dividend payment be made later than 30 days following the date on which the Company pays such dividend to the holders of Stock.

3. Vesting Date, Adjustment, and Other Restrictions. Subject to the terms and conditions of this Agreement and the Plan, the forfeiture restrictions on the Restricted Stock Units will lapse and the Restricted Stock Units will vest, subject to the Performance Vesting Requirement, on December 15th of the second calendar year following the calendar year in which the Date of Grant occurs (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 8 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 number of Restricted Stock Units 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 unpaid leave and/or were not actively employed during any part of the applicable performance period, your Restricted Stock Units subject to that Performance Vesting Requirement shall be further adjusted to equal the number of Restricted Stock Units equal to (x) your number of Restricted Stock Units 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 reduce or eliminate 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. In the event of a negative adjustment, the remaining Restricted Stock Units subject to that Performance Vesting Requirement 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 Restricted Stock Units pursuant to this Section 3(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 full time (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 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 unpaid leave and/or were not actively employed 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 3(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 3(b), the Committee has the right to further reduce or eliminate 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. Following the satisfaction of the Performance Vesting Requirement and the adjustments herein provided but prior to the Vesting Date, you will be then eligible to receive Dividend Equivalents with respect to the adjusted Restricted Stock Units rather than the original 1,000 Restricted Stock Units. Upon the applicable settlement date of your Restricted Stock Units, you will receive a settlement from the Company with respect to such adjusted Restricted Stock Units rather than the original 1,000 Restricted Stock Units.

(c) Other Restrictions. Subject to Section 6 of this Agreement, the restrictions on your Restricted Stock Units will expire on the Vesting Date only if you have been an employee or service provider of the Company or of a Subsidiary continuously from the Date of Grant through the Vesting Date. Other than as provided in Section 6(d)(i) below, in the event that the Performance Vesting Requirement is not satisfied, no portion of the Restricted Stock Units subject to that Performance Vesting Requirement shall become vested. Restricted Stock Units that have become vested pursuant to this Section 3 shall be referred to herein as the “*Vested Units*.”

4. 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.

(b) Time of Settlement. The Vested Units 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. In the event the Restricted Stock Units become Vested Units pursuant to Section 6 below, the Company will settle the Vested Units as soon as administratively practicable following the time of vesting noted in Section 6 below, but in no event shall such settlement occur later than 75 days following the applicable vesting event.

5. 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.

6. 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 or service relationship 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 Restricted Stock Units subject to that Performance Vesting Requirement, subject to any adjustment pursuant to Section 3(b) above, shall automatically lapse as to the outstanding unvested shares of Restricted Stock Units subject to that Performance Vesting Requirement, and in the case of your Disability, subject to Section 12 of this Agreement. If your employment or service relationship 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 the Restricted Stock Units subject to that Performance Vesting Requirement will become Vested Units.

For purposes of this Section 6(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 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 or service relationship 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 a number of the shares of your Restricted Stock Units subject to that Performance Vesting Requirement, subject to any adjustment pursuant to Section 3(b) above, shall automatically lapse pro-rata in relation to the amount of time you have been employed by, or in the service of, the Company or any of its Subsidiaries, as described below; *provided, however*, that such restrictions shall lapse subject to the additional provisions of Section 12 of this Agreement, if applicable. Solely for purposes of determining the number of shares which may lapse or vest pursuant to this Section 6(b), the Restricted Stock Units subject to that Performance Vesting Requirement, as adjusted pursuant to Section 3(b) above, shall be referred to in two portions, two-thirds (2/3) of the Restricted Stock Units shall be the “**Two-Year Portion**”; the remaining and final one-third (1/3) of the Restricted Stock Units shall be the “**Three-Year Portion**.” Following a termination of your employment or service due to your Normal Retirement:

(i) restrictions will lapse on a number of Restricted Stock Units in the Two-Year Portion equal to the product of (A)two-thirds (2/3) of the total number of Restricted Stock Units granted to you, subject to any adjustment pursuant to Section 3(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 24; plus

(ii) restrictions will lapse on a number of Restricted Stock Units in the Three-Year Portion equal to the product of (A)one-third (1/3) of the total number of Restricted Stock Units granted to you, subject to any adjustment pursuant to Section 3(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.

If your employment or service relationship 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 the Restricted Stock Units subject to that Performance Vesting Requirement will become Vested Units. For purposes of this Section 6(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 or service relationship with the Company and each of its Subsidiaries by which you are employed or provide services to due to your voluntary retirement on or after the date that you attain age 67.

(c) Termination for Any Other Reason. Subject to Sections 6(d) and 6(e) below, if your employment or service relationship 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 Restricted Stock Units granted pursuant to this Agreement for which have not become Vested Units as of the date of termination shall become null and void as of the date of such termination; *provided, however*, that, subject to the Performance Vesting Requirement, the portion, if any, of your Vested Units as of the date of such termination will survive the termination of employment.

(d) Change in Control.

(i) Prior to Satisfaction of the Performance Vesting Requirement Notwithstanding anything to the contrary in Section 3 or the remainder of this Section 6, 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 all Restricted Stock Units subject to that Performance Vesting Requirement granted to you pursuant to Section 1 of this Agreement shall automatically lapse and the Restricted Stock Units subject to that Performance Vesting Requirement will vest, subject further to Section 12 of this Agreement.

(ii) Following the Satisfaction of the Performance Vesting Requirement Notwithstanding anything to the contrary in the remainder of this Section 6, 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 Restricted Stock Units subject to that Performance Vesting Requirement, subject to any adjustment pursuant to Section 3(b) above, shall automatically lapse and such Restricted Stock Units subject to that Performance Vesting Requirement will vest subject further to Section 12 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 Restricted Stock Units subject to that Performance Vesting Requirement shall become Vested Units upon a Change in Control.

(iii) Other restrictions. Nothing within this Section 6(d) is intended to modify Sections 6(a) or 6(b) above regarding the full acceleration or pro-rata acceleration, as applicable, of your Restricted Stock Units upon a termination of employment due to death, Disability or Normal Retirement. The provisions of Sections 6(a) and 6(b) shall apply to a termination of your employment or service for death, Disability or Normal Retirement, as applicable, whether or not such a termination of employment or service 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 6 and any Individual Agreement entered into by and between you and the Company, the terms of such an Individual Agreement shall control.

7. 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, or providing services for, the Company, provided that rights to the Restricted Stock Units 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.

8. 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 3 or 6 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 9 of this Agreement. The value of such Restricted Stock Units shall not bear any interest owing to the passage of time.

9. 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 cash payment or the shares of Stock 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 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 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.

10. Compliance with Securities Law. Notwithstanding any provision of this Agreement to the contrary, in the event the Restricted Stock Units 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) 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 (b) 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.

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

12. 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 Restricted Stock Units pursuant to this Agreement or in connection with the acceleration of the Restricted Stock Units in accordance with the provisions of Section 6 of this Agreement.

13. 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.
14. 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.
15. 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 Restricted Stock Units granted hereunder.
16. 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.
17. 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.
18. 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.
19. Waiver of Notice. Any person entitled to notice hereunder may waive such notice in writing.
20. 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.
21. 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.
22. 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.
23. 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.
24. 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.
25. 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.
26. 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.

27. 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.

28. Transfer. This Agreement and the Restricted Stock Units 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.

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

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

31. 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: /s/ Jamie L. Vazquez

Jamie L. Vazquez, President

Appendix A

Performance Goals for 2014 Award

The Performance Goals for your Restricted Stock Units 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 3(b) of the Agreement, your Restricted Stock Units, as adjusted, will become Vested Units on the Vesting Date, only if you have been an employee or service provider 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 Restricted Stock Units Which are Subject to Performance Criteria | Performance Period |
|---|--|---|
| Adjusted EBITDA(1) for the Performance Period, but taking into account the effect of property sales, if applicable as deemed by the Compensation Committee (Measurement rounded to nearest million) | 40% | The full calendar year, from January 1 to December 31, 2014 |

| Performance Level (\$000) | Scale |
|--|-------|
| | |
| | |
| (<i>"Target"</i>):\$525,000 or greater | 100% |
| \$475,000 or greater | 75% |
| \$425,000 or greater | 50% |
| \$375,000 or greater | 25% |
| less than \$300,000 | 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, gains and losses on the sale of assets and other items that are, in the sole discretion of the Compensation Committee appropriate adjustment to reflect normalized results.

| Criteria | Percentage of 100% of Restricted Stock Units Which are 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, 2014 |

| Performance Level | Scale |
|---|--------------|
| | |
| | |
| Greater than or equal to 60% ("Target") | 100% |
| >58% | 75% |
| >57% | 50% |
| >56% | 25% |
| <55% | 0% |
| | |

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

Executive Annual Incentive Award Agreement
For Fiscal Year 2014
Executive (2014): Krohn, Tracy W.

This potential Annual Incentive Award (the "**Award**") is granted on March 27, 2014 (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;

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 2014 fiscal year;

WHEREAS, a copy of the Plan has been furnished to you and shall be deemed a part of this Agreement as if fully set forth herein; and

WHEREAS, you desire to accept the Award made pursuant to this Agreement.

NOW, THEREFORE, in consideration of and mutual covenants set forth herein and for other valuable consideration hereinafter set forth, the parties agree as follows:

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 a full time 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 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, 2014.

(f) **“Total Performance Score”** means the aggregate number of points 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.

3. **Effect of Award Agreement.** By signing this Agreement, you (a) acknowledge receipt of and represent that you have read and are familiar with this Agreement; (b) accept this Award subject to all of the terms and conditions of the Agreement and the Plan; and (c) agree to accept as binding, conclusive and final all decisions or interpretations of the Committee.

4. **Target Award.** You are hereby awarded a target Award of 100% of your Base Salary (referred to herein as your **“Target Award”**) subject to the terms and conditions set forth in the Plan and this Agreement. Subject to Sections 5 and 8 below, your Total Performance Score will determine whether you may receive an Award less than, equal to, or greater than your Target Award.

5. **Minimum and Maximum Performance Levels.** As a condition of payment of the Award, your Total Performance Score must reach 40 or above; Total Performance Scores of 0 through 39.99 shall not result in the payment of any portion of your Award. The maximum Total Performance Score you may be assigned shall not exceed 200, nor may the payout of your Award exceed 200% of your Target Award amount.

6. **Award Calculation.** Your Award will be calculated as follows:

(a) Based on your Total Performance Score, the payout amount of your Award will be determined using the chart below:

| Total Performance Score | Percentage of Target Award Paid to You |
|-------------------------|--|
| 200 | 200% |
| 100 | 100% |
| 50 | 50% |
| 0 | 0% |

(b) **General Terms.**

(i) Payout multiples between the numbers 0 and 200 on the chart in Section 6(a) above will be calculated using straight-line interpolation.

(ii) Any Award that is earned will be settled in the form of shares of Stock and granted pursuant to the Plan. The number of shares of Stock to be granted to you shall be calculated by dividing the value of the earned Award (your Total Performance Score expressed as a percentage times your Target Award) divided by \$14.66 (adjusted for taxes pursuant to Section 10 hereof and rounded down to the next whole number). The resulting shares of Stock will be granted to you 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. Any remaining value of the earned Award will be paid to you in cash at the same time that your Stock is granted to you.

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

7. Effect of Termination of Employment. Notwithstanding any provisions to the contrary below 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. However, to the extent such an Individual Agreement provides for a payment of your annual bonus in cash, your Award will be settled in accordance with Section 6(b)(ii) above in the form of Stock. 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 or settled, 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 the Base Salary you received during the Performance Period (the "Pro-Rata Award"); provided, however, that you must have been employed full time 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). You, your beneficiaries, or your estate, as applicable, will receive the number of shares of Stock equal to your Pro-Rata Award (your Total Performance Score expressed as a percentage times your Target Award) divided by \$14.66 (adjusted for taxes pursuant to Section 10 hereof and rounded down to the next whole number). The resulting shares of Stock will be granted to you 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. Any remaining value of the earned Award will be paid to you, your beneficiaries or your estate, as applicable, in cash at the same time that your Stock is granted pursuant to 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 settlement of an Award. You have no vested interest in the Award prior to the Award actually being paid or settled 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 or settlement of any Award for the Performance Period.

8. Right of the Committee. The Committee has the right to reduce or eliminate your Award for any reason regardless of the amount of your Total Performance Score 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. 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 Stock (and to the extent necessary, the cash payment) to be issued to you under this Agreement the amount necessary to satisfy the Company's obligation to withhold taxes. To the extent that the Company withholds shares of Stock, the determination of how many shares to withhold will be based on the Stock's Fair Market Value at the time such determination is made.

11. 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.

12. 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.

13. Execution of Receipts and Releases. Any payment of stock or 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.

14. 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.

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

16. 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.

17. 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.

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

19. 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.

20. Amendment. 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.

21. 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.

22. 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.

23. 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.

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

25. 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.

Executed by the Company as of the Award Date.

W&T Offshore, Inc.

/s/ Jamie L. Vazquez

Jamie L. Vazquez, President

Appendix A

2014 Annual Incentive Award

Performance Goals

The Performance Goals for your 2014 Annual Incentive Award shall be comprised of two equal portions: the “Business Criteria” and the “Company and Individual Performance Criteria.” The Business Criteria will comprise 50% of your potential Award, and the Company and Individual Performance Criteria will comprise the remaining 50% of your potential Award.

Your Total Performance Score will be calculated using the criteria and the scales below. 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 your Total Performance Score according to the aggregate number of points you receive from each of the scales below.

Part 1. Business Criteria

| Target Criteria | Percentage of Weight Relative to your Total Potential Award | Points |
|--|---|--------|
| Production Growth: equivalent production at least 18.55 MMBoe (111.3 Bcfe) for YE 2014, but taking into account the effect of property sales, if applicable as deemed by the Compensation Committee. | 17.5% | 0-35 |
| Reserve Growth: Increase in reserves of at least 5% over 2013 YE reserves (~123.6 MMboe); but taking into effect the effect of property sales year over year, if applicable as deemed by the Compensation Committee. | 17.5% | 0-35 |
| F&D Costs: not to exceed \$22.50 per Boe (\$3.75 per Mcfe) at year end 2014 | 5% | 0-10 |
| LOE & G&A: 2014 LOE and G&A per Boe of production no more than a 5% increase in LOE and G&A per Mcfe of production, measured against 2013 LOE and G&A per Boe of production (excluding hurricane expenses, insurance credits for such expenses and/or other extraordinary event) | 10% | 0-20 |
| <i>Total</i> | 50% | 100 |

The number of points you receive on each individual scale shall be determined as follows, using a straight-line interpolation:

Production Growth – Total Production for 2014; but taking into account the effect of property sales, if applicable as deemed by the Compensation Committee. (Measurement rounded to nearest 1/10th decimal)

| Performance Level | Points |
|--|--------|
| Maximum: greater than 21.6 MMBoe (129.9 Bcfe) | 35 |
| Target: 18.55 MMBoe (111.3 Bcfe) | 17.5 |
| Threshold: 18 MMBoe (108 Bcfe) | 8.75 |
| Below Threshold | 0 |

Reserve Growth – In 2014, increase in reserves over 2013 Year-end reserves of 117.7 MMBoe; and taking into consideration the effect of property sales year over year, if applicable as deemed by the Compensation Committee. (Measurement rounded to the nearest 1/10th decimal)

| Performance Level | Points |
|--|---------------|
| Maximum: increase in reserves of greater than 12.5% over 2013 YE reserves (~132.4 MMBoe) | 35 |
| Target: increase in reserves of greater than 5% over 2013 YE reserves (~123.6 MMBoe) | 17.5 |
| Threshold: increase in reserves of greater than 2% over 2013 YE reserves (~120 MMBoe) | 8.75 |
| Below Threshold | 0 |

F&D Costs: for 2014 not to exceed a specified dollar amount per Boe at year end 2014. “F&D” is defined as the total capital dollars spent in 2014 plus changes in ARO; divided by proved reserves added for the year 2014.

| Performance Level | Points |
|--|---------------|
| Maximum: F&D costs not to exceed \$15 per Boe (\$2.50 per Mcfe) at year end 2014 | 10 |
| Target: F&D costs not to exceed \$22.50 per Boe (\$3.75 per Mcfe) at year end 2014 | 5 |
| Threshold: not to exceed \$24.00 per Boe (\$4.00 per Mcfe) at year end 2014 | 2.5 |
| Below Threshold | 0 |

(d) Combined LOE & G&A: 2014 LOE and G&A per Boe of production no more than a percentage increase in LOE and G&A per Boe of production, measured against 2013 LOE and G&A per Boe (being \$19.62/Boe) of production (both measurements excluding hurricane expenses, insurance credits for such expenses and/or other extraordinary event).

| Performance Level | Points |
|--|---------------|
| Maximum: less than a 1% increase in LOE and G&A per Boe of production, measured against 2013 LOE and G&A per Boe of production (~\$19.82/Boe) | 20 |
| Target: no more than a 5% increase in LOE and G&A per Boe of production, measured against 2013 LOE and G&A per Boe of production (~\$20.60/Boe) | 10 |
| Threshold: no more than a 7% increase in LOE and G&A per Boe of production, measured against 2013 LOE and G&A per Boe of production (~\$20.99/Boe) | 5 |
| Below Threshold | 0 |

Part 2. Company and Individual Performance Criteria

| Criteria | Percentage of Weight Relative to your Total Potential Award | Points |
|---|---|--------|
| Overall Company Performance Conditions | | |
| 2014 Adjusted EBITDA, target of \$525 million, but taking into account the effect of property sales, if applicable as deemed by the Compensation Committee. | 20% | 0-40 |
| 2014 Adjusted EBITDA Margin Percentage, a target of 60% | 15% | 0-30 |
| | | |
| | | |
| Individual Performance Conditions | | |
| Individual Performance as assessed by management for year 2014 | 15% | 0-30 |
| | | |
| <i>Total for Overall Company Performance Conditions and Individual Performance Conditions Combined</i> | 50% | 100 |

The number of points you receive on each individual scale shall be determined as follows, on straight-line interpolation:

(a) Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Accretion), but taking into account the effect of property sales, if applicable for YE2014 as deemed by the Compensation Committee. 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, gains and losses on the sale of assets and other items that are, in the sole discretion of the Compensation Committee appropriate adjustment to reflect normalized results. (Measurement rounded to nearest million)

| Performance Level | Points |
|---|--------|
| Maximum: Adjusted EBITDA of \$700 million | 40 |
| Target: Adjusted EBITDA of \$525 million | 20 |
| Threshold: Adjusted EBITDA of \$475 million | 10 |
| Below Threshold | 0 |

(b) Adjusted EBITDA Margin Percentage YE 2014

(Measurement rounded to nearest 1/10th decimal)

| Performance Level | Points |
|---|--------|
| Maximum: Adjusted EBITDA Margin Percentage greater than 65% YE 2014 | 30 |
| Target: Adjusted EBITDA Margin Percentage greater than 60% YE 2014 | 15 |
| Threshold: Adjusted EBITDA Margin Percentage greater than 58% YE 2014 | 7.5 |
| Below Threshold | 0 |

(c) Individual Performance in 2014, assessed by management

(Measurement rounded to nearest 1/10th decimal)

| Performance Level | Points |
|-------------------------------------|--------|
| Maximum – Far Exceeded Expectations | 30 |
| Target – Exceeded Expectations | 15 |
| Threshold – Met expectations | 7.5 |
| Below Threshold | 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: May 7, 2014

/s/ Tracy W. Krohn

Tracy W. Krohn
Chairman, Chief Executive Officer and Director

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

I, John D. Gibbons, 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: May 7, 2014

/s/ John D. Gibbons

John D. Gibbons
Senior Vice President, Chief Financial Officer and
Chief Accounting 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 knowledge, that the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act 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: May 7, 2014

/s/ Tracy W. Krohn

Tracy W. Krohn

Chairman, Chief Executive Officer and Director

Date: May 7, 2014

/s/ John D. Gibbons

John D. Gibbons

Senior Vice President, Chief Financial Officer and
Chief Accounting Officer