W&T OFFSHORE INC
Form 10-Q
August 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from ______ to ______

Commission File Number 1-32414

W&T OFFSHORE, INC.

(Exact name of registrant as specified in its charter)

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

(713) 626-8525

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x 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	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of August 4, 2010, there were 74,647,644 shares outstanding of the registrant s common stock, par value $0.00001.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2010	December 31, 2009
	(In thousands, except share data)	
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 72,898	$ 38,187
Receivables:		
Oil and natural gas sales	66,717	54,978
Joint interest and other	29,381	51,312
Insurance	13,848	30,543
Income taxes		85,457
Total receivables	109,946	222,290
Prepaid expenses and other assets	40,723	28,777
Total current assets	223,567	289,254
Property and equipment at cost:		
Oil and natural gas properties and equipment (full cost method, of which $64,605 at June 30, 2010 and $77,301 at December 31, 2009 were excluded from amortization)	4,943,283	4,732,696
Furniture, fixtures and other	15,248	15,080
Total property and equipment	4,958,531	4,747,776
Less accumulated depreciation, depletion and amortization	3,885,800	3,752,980
Net property and equipment	1,072,731	994,796
Restricted deposits for asset retirement obligations	31,281	30,614
Deferred income taxes	5,975	5,117
Other assets	7,896	7,052
Total assets	$ 1,341,450	$ 1,326,833
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 55,041	$ 115,683
Undistributed oil and natural gas proceeds	25,127	32,216
Asset retirement obligations	99,474	117,421
Accrued liabilities	9,982	13,509
Income taxes	6,055	
Deferred income taxes	8,921	5,117
Total current liabilities	204,600	283,946

Long-term debt	450,000	450,000
Asset retirement obligations, less current portion	245,339	231,379
Other liabilities	14,912	2,558
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.00001 par value; 118,330,000 shares authorized; 77,555,011 issued and 74,685,838 outstanding at June 30, 2010; 77,579,968 issued and 74,710,795 outstanding at December 31, 2009	1	1
Additional paid-in capital	374,993	373,050
Retained earnings	75,772	10,066
Treasury stock, at cost	(24,167)	(24,167)
Total shareholders equity	426,599	358,950
Total liabilities and shareholders equity	$ 1,341,450	$ 1,326,833

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In thousands, except per share data) (Unaudited)			
Revenues	$ 179,667	$ 150,432	$ 349,252	$ 267,854
Operating costs and expenses:				
Lease operating expenses	52,457	54,080	87,823	104,311
Production taxes	283	580	512	1,290
Gathering and transportation	3,726	3,755	8,313	6,350
Depreciation, depletion and amortization	69,895	74,515	132,819	155,303
Asset retirement obligation accretion	6,127	10,080	12,412	20,827
Impairment of oil and natural gas properties				218,871
General and administrative expenses	14,375	10,731	24,754	22,167
Derivative (gain) loss	(7,374)	460	(13,270)	852
Total costs and expenses	139,489	154,201	253,363	529,971
Operating income (loss)	40,178	(3,769)	95,889	(262,117)
Interest expense:				
Incurred	10,914	11,740	21,834	24,249
Capitalized	(1,329)	(1,722)	(2,745)	(3,504)
Loss on extinguishment of debt		2,926		2,926
Other income	354	218	482	723
Income (loss) before income tax expense (benefit)	30,947	(16,495)	77,282	(285,065)
Income tax expense (benefit)	3,077	(10,521)	7,097	(34,513)
Net income (loss)	$ 27,870	$ (5,974)	$ 70,185	$ (250,552)
Basic and diluted earnings (loss) per common share	$ 0.37	$ (0.08)	$ 0.94	$ (3.33)
Dividends declared per common share	$ 0.03	$ 0.03	$ 0.06	$ 0.06

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

	Common Stock Shares	Common Stock Value	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Value	Total Shareholders Equity
				(In thousands)			
				(Unaudited)			
Balances at December 31, 2009	74,711	$ 1	$ 373,050	$ 10,066	2,869	$ (24,167)	$ 358,950
Cash dividends				(4,479)			(4,479)
Share-based compensation			1,943				1,943
Restricted stock issued, net of forfeitures	(25)						
Net income				70,185			70,185
Balances at June 30, 2010	74,686	$ 1	$ 374,993	$ 75,772	2,869	$ (24,167)	$ 426,599

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2010	2009
	(In thousands) (Unaudited)	
Operating activities:		
Net income (loss)	$ 70,185	$ (250,552)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	145,231	179,230
Impairment of oil and natural gas properties		218,871
Amortization of debt issuance costs and discount on indebtedness	669	1,176
Loss on extinguishment of debt		2,817
Share-based compensation related to restricted stock issuances	1,943	3,116
Derivative (gain) loss	(13,270)	852
Cash payments on derivative settlements	(442)	(2,871)
Deferred income taxes	2,945	(158)
Other		458
Changes in operating assets and liabilities:		
Oil and natural gas receivables	(11,739)	(16,988)
Joint interest and other receivables	21,931	21,475
Insurance receivables	29,879	(3,392)
Income taxes	91,513	(16,799)
Prepaid expenses and other assets	(9,129)	(27,004)
Asset retirement obligations	(35,210)	(30,969)
Accounts payable and accrued liabilities	(62,542)	(32,502)
Other liabilities	12,354	(347)
Net cash provided by operating activities	244,318	46,413
Investing activities:		
Acquisition of property interests	(116,589)	
Investment in oil and natural gas properties and equipment	(89,705)	(239,684)
Proceeds from sales of oil and natural gas properties and equipment	1,335	8,368
Proceeds from insurance		5,260
Purchases of furniture, fixtures and other	(167)	(479)
Net cash used in investing activities	(205,126)	(226,535)
Financing activities:		
Borrowings of long-term debt	285,000	205,441
Repayments of long-term debt	(285,000)	(268,441)
Dividends to shareholders	(4,481)	(4,581)
Repurchases of common stock		(9,247)
Other		131
Net cash used in financing activities	(4,481)	(76,697)
Increase (decrease) in cash and cash equivalents	34,711	(256,819)
Cash and cash equivalents, beginning of period	38,187	357,552

Cash and cash equivalents, end of period	$ 72,898	$ 100,733

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, active in the acquisition, exploitation, exploration and development of oil and natural gas properties primarily in the Gulf of Mexico.

Interim Financial Statements. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information 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. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The accompanying financial statements for the six months ended June 30, 2010 include a reduction of hurricane remediation, facilities and workover expenses totaling approximately $5.1 million related to prior years. The amounts were recorded in the first quarter of 2010 and were not deemed material with respect to such prior years or the anticipated results and the trend of earnings for fiscal year 2010. 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, 2009.

Reclassifications. Certain reclassifications have been made to prior periods financial statements to conform to the current presentation.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Ceiling Test. The carrying amount of our oil and natural gas properties was written down by $218.9 million as of March 31, 2009 through application of the full cost ceiling limitation as prescribed by the SEC, primarily as a result of lower natural gas prices at March 31, 2009, as compared to December 31, 2008. The previously reported amount of $205.0 million was subsequently increased by $13.9 million in the fourth quarter of 2009 as a result of further analysis of our March 31, 2009 ceiling test calculation. As such, operating income, net income and our basic and diluted loss per common share for the six months ended June 30, 2009 have been adjusted as well. We did not have a ceiling test write-down during the three and six months ended June 30, 2010.

2. Recent Accounting Pronouncements

Effective for our annual reporting period ended December 31, 2009, we adopted certain amendments to the *Extractive Activities Oil and Gas* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification) that updated and aligned the FASB s reserve estimation and disclosure requirements for oil and natural gas companies with the reserve estimation and disclosure requirements that were adopted by the SEC in December 2008. In accordance with the new rules, we use the unweighted average of first-day-of-the-month commodity prices over the preceding 12-month period, rather than end-of-period commodity prices, when estimating quantities of proved reserves. Additionally, the estimated future net revenues used to calculate the ceiling test are based on the 12-month average commodity price for each product. Refer to our Annual Report on Form 10-K for the year ended December 31, 2009 for additional information about the impact of these new requirements on our oil and natural gas reserves and financial statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Asset Retirement Obligations

Our asset retirement obligations primarily represent 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 our asset retirement obligations is as follows (in thousands):

Balance, December 31, 2009	$ 348,800
Liabilities settled	(35,210)
Accretion of discount	12,412
Disposition of properties	(1,520)
Liabilities assumed through acquisition	6,289
Revisions of estimated liabilities due to Hurricane Ike	11,088
Revisions of estimated liabilities all other	2,954
Balance, June 30, 2010	344,813
Less current portion	99,474
Long-term	$ 245,339

4. Acquisition

On April 7, 2010, we entered into a Purchase and Sale Agreement (PSA) with Total E&P USA, Inc. (Total) to acquire all of Total s interest, including production platforms and facilities, in three federal offshore lease blocks located in the Gulf of Mexico for a purchase price of $150 million, subject to customary closing adjustments, with an effective date of January 1, 2010. The properties acquired from Total are producing interests with future development potential, and include a 100% working interest in Mississippi Canyon block 243 (Matterhorn) and a 64% working interest in Viosca Knoll blocks 822 and 823 (Virgo). The transaction closed on April 30, 2010, with our wholly-owned subsidiary, W&T Energy VI, LLC (Energy VI) as purchaser. The purchase price was adjusted for, among other things, net revenue and operating expenses from the effective date to the closing date, resulting in a net payment of $116.6 million. This acquisition was funded with cash on hand. In accordance with the PSA, Energy VI obtained unsecured surety bonds in favor of the Bureau of Ocean Energy Management, Regulation and Enforcement (the BOEM and formerly the Minerals Management Service) to secure the retirement obligations with respect to the these assets. The PSA provides for annual increases in the required security for the asset retirement obligations. To help satisfy the annual increases, Energy VI has agreed to make periodic payments from production of the acquired properties to an escrow agent. As long as the required security amount then in effect is met, the payments will be promptly released to us by the escrow agent. As of June 30, 2010, we were in compliance with the required security amount.

5. Long-Term Debt

At June 30, 2010 and December 31, 2009, borrowings outstanding under our 8.25% Senior notes (the Notes) were $450.0 million, all of which are classified as long-term, and we had no amounts outstanding under our committed revolving loan facility. Also at June 30, 2010 and December 31, 2009, we had $0.3 million and $0.7 million, respectively, of letters of credit outstanding under the Third Amended and Restated Credit Agreement, as amended (the Credit Agreement), which governs our revolving loan facility and is described below.

Borrowings under the Credit Agreement are secured by our oil and natural gas properties. Availability under the Credit Agreement is subject to a semi-annual borrowing base redetermination (March and September) set at the discretion of our lenders. The amount of the borrowing base is calculated by our lenders based on their valuation of our proved reserves and their own internal criteria. In April 2010, our borrowing base under the Credit Agreement was reaffirmed by our lenders at $405.5 million. In July 2010, we borrowed $142.5 million under our revolving loan facility.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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, as such ratios are defined in the Credit Agreement. We were in compliance with all applicable covenants of the Credit Agreement as of June 30, 2010.

The Notes bear interest at a fixed rate of 8.25%, with interest payable semi-annually in arrears on June 15 and December 15. At June 30, 2010 and December 31, 2009, the estimated fair value of the Notes was approximately $405.0 million and $432.0 million, respectively, based on quoted prices. The estimated annual effective interest rate on the Notes is 8.4%.

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 in measuring the fair value of our derivative financial instruments consist of market-based or independently-sourced market parameters, including but not limited to forward curves for oil, natural gas and interest rates, and volatilities. In addition to market information, the models also incorporate the contractual terms of the instruments. The fair values of our derivative assets and liabilities include adjustments for credit risk and were $5.1 million and $1.1 million, respectively, at June 30, 2010, and $0.1 million and $9.9 million, respectively, at December 31, 2009. For additional details about our derivative financial instruments, refer to Note 7. The estimated fair value of the Notes, as disclosed in Note 5, was based on quoted prices, which are classified as Level 1 inputs.

7. Derivative Financial Instruments

We account for derivative contracts in accordance with the *Derivatives and Hedging* Topic of the Codification, which requires each derivative to be recorded on the balance sheet as an asset or a liability at its fair value. Changes in a derivative s fair value are required to be recognized currently in earnings unless specific hedge accounting criteria are met at the time we enter into a derivative contract.

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 oil and natural gas and interest rate risk from floating interest rates on our revolving loan facility. We do not enter into derivative instruments for speculative trading purposes. Our derivative instruments currently consist of commodity option contracts, a commodity swap contract and an interest rate swap contract. The Company is exposed to credit loss in the event of nonperformance by the counterparties; however, none is currently anticipated.

Commodity Derivatives. We have entered into a limited number of commodity option contracts and a commodity swap contract to help manage our exposure to commodity price risk from sales of oil and natural gas during the fiscal years ending December 31, 2010 and 2011. We have elected not to designate our commodity derivatives as hedging instruments. While these contracts are intended to reduce the effects of volatile oil and natural gas prices, they may also limit future income from favorable price movements. As of June 30, 2010, our open commodity derivatives were as follows:

Zero Cost Collars Oil

Effective Date	Termination Date	Notional Quantity (Bbls)	Weighted Average NYMEX Contract Price Floor	Weighted Average NYMEX Contract Price Ceiling	Fair Value Asset (in thousands)
7/1/2010	9/30/2010	310,300	$ 71.54	$ 86.83	$ 175
10/1/2010	12/31/2010	420,650	71.95	89.07	444
1/1/2011	3/31/2011	434,200	75.00	94.62	1,271
4/1/2011	6/30/2011	382,100	75.00	94.60	957
7/1/2011	9/30/2011	151,300	75.00	94.68	343

10/1/2011	12/31/2011	244,900	75.00	96.08	547
		1,943,450	$ 73.79	$ 92.36	$ 3,737

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Zero Cost Collars Natural Gas

Effective Date	Termination Date	Notional Quantity (MMBtu)	Weighted Average NYMEX Contract Price Floor	Weighted Average NYMEX Contract Price Ceiling	Fair Value Asset (in thousands)
8/1/2010	9/30/2010	708,500	$ 5.00	$ 6.73	$ 352
10/1/2010	12/31/2010	1,831,800	5.00	8.35	696
		2,540,300	$ 5.00	$ 7.90	$ 1,048

Swap Natural Gas

Effective Date	Termination Date	Notional Quantity (MMBtu)	Swap Price	Fair Value Asset (in thousands)
8/1/2010	12/31/2010	306,000	$ 5.71	$ 214

Changes in the fair value of our commodity derivative contracts are recognized currently in earnings. For the three and six months ended June 30, 2010, we recognized gains of $7.4 million and $13.6 million, respectively, related to a change in the fair value of our commodity derivatives. We did not have any open commodity derivative positions during the three and six months ended June 30, 2009.

At June 30, 2010, $4.2 million was included in prepaid expenses and other assets, $0.9 million was included in other assets and $0.1 million was included in accrued liabilities related to our open commodity derivative contracts. At December 31, 2009, $0.1 million was included in prepaid expenses and other assets and $5.5 million was included in accrued liabilities related to our open commodity derivative contracts.

Interest Rate Swap. We have one interest rate swap contract outstanding with a fixed interest rate of 5.21%, which expires in August 2010. Initially, this swap was designated as a hedge of the floating-rate interest payments on our Tranche B term loan facility. However, as a result of payments on the loan and changes to the swap contract, hedge accounting was discontinued completely in 2007. Changes in fair value subsequent to the discontinuation of hedge accounting have been immediately recognized in earnings. As of June 30, 2010, the total notional amount of our swap was $145.5 million.

For the six months ended June 30, 2010, we recognized a loss of $0.3 million related to a change in the fair value of our interest rate swap. For the three and six months ended June 30, 2009, we recognized a loss of $0.5 million and $0.9 million, respectively, related to a change in the fair value of our interest rate swap.

At June 30, 2010 and December 31, 2009, the fair value of our interest rate swap was $1.0 million and $4.4 million, respectively. Both amounts were included in accrued liabilities on the respective dates.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Income Taxes

Income tax expense of $3.1 million and $7.1 million was recorded during the three and six months ended June 30, 2010, respectively, compared to an income tax benefit of $10.5 million and $34.5 million for the same periods of 2009. Our effective tax rate for the three and six months ended June 30, 2010 was approximately 9.9% and 9.2%, respectively, and primarily reflects a reduction in our valuation allowance against our deferred tax assets. Our effective tax rate for the quarter ended June 30, 2009 was approximately 63.8% and primarily reflected adjustments to our forecasted annual tax rate. Our effective tax rate for the six months ended June 30, 2009 was approximately 12.1% and primarily reflected the effect of a valuation allowance against our deferred tax assets.

During the second quarter of 2010, we received refunds of federal income taxes paid in prior years totaling $99.7 million, consisting primarily of carrybacks of net operating losses generated in 2009 and 2008. Approximately $12.3 million of these refunds were subject to recognition limitations in accordance with the *Income Taxes* Topic of the Codification, and as a result, during the second quarter of 2010, we recorded an unrecognized tax benefit of $12.3 million plus interest thereon in other liabilities. No potential benefits are included in the balance of unrecognized tax benefits that would affect the effective tax rate on income from continuing operations if recognized.

We recognize interest and penalties related to unrecognized tax benefits in income tax expense. During the three and six months ended June 30, 2010, we recognized $0.1 million in income tax expense for interest related to our unrecognized tax benefit. As of June 30, 2010, we had $0.1 million of accrued interest related to our unrecognized tax benefit. We did not have any unrecognized tax benefits during the year ended December 31, 2009. The tax years from 2006 through 2009 remain open to examination by the tax jurisdictions to which we are subject.

9. Hurricane Remediation and Insurance Claims

During the third quarter of 2008, Hurricane Ike, and to a much lesser extent Hurricane Gustav, caused property damage and disruptions to our exploration and production activities. We currently have insurance coverage for named windstorms but we do not carry business interruption insurance. Our insurance policies in effect on the occurrence dates of Hurricanes Ike and Gustav had a retention of $10 million per occurrence that must be satisfied by us before we are indemnified for losses. In the fourth quarter of 2008, we satisfied our $10 million retention requirement for Hurricane Ike in connection with two platforms that were toppled and were deemed total losses. Our insurance coverage policy limits at the time of Hurricane Ike were $150 million for property damage due to named windstorms (excluding certain damage incurred at our marginal facilities) and $250 million for, among other things, removal of wreckage if mandated by any governmental authority. The damage we incurred as a result of Hurricane Gustav was well below our retention amount.

Included in lease operating expenses for the three months ended June 30, 2010 are hurricane remediation costs of $2.1 million related to Hurricanes Ike and Gustav that were either not yet approved for payment under our insurance policies or were not covered by insurance. Included in lease operating expenses for the six months ended June 30, 2010 is a reduction of $4.2 million related to amounts approved for payment under our insurance policies and revisions to previous estimates (see Note 1 *Basis of Presentation Interim Financial Statements*) of hurricane remediation costs incurred in connection with Hurricanes Ike and Gustav. Included in lease operating expenses for the three and six months ended June 30, 2009 are hurricane remediation costs of $5.0 million and $15.2 million, respectively, related to Hurricanes Ike and Gustav that were either not yet approved for payment or were not covered by insurance.

We recognize insurance receivables with respect to capital, repair and plugging and abandonment costs as a result of hurricane damage when we deem those to be probable of collection. Our assessment of probability considers the review and approval of such costs by our insurance underwriters adjuster. Claims that have been processed in this manner have customarily been paid on a timely basis.

W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We have also recognized an insurance receivable to the extent our insurance underwriters adjuster has reviewed our work plans and other information related to plugging and abandonment activities that were accelerated by Hurricane Ike and has indicated that our insurance policies provide coverage for such costs and such costs are within policy limits.

Below is a reconciliation of our insurance receivables from December 31, 2009 to June 30, 2010 (in thousands):

Balance, December 31, 2009	$ 30,543
Costs approved under our insurance policies:	
Remediation	2,357
Plugging and abandonment	13,452
Payments received:	
Remediation	(3,525)
Plugging and abandonment	(28,979)
Balance, June 30, 2010	$ 13,848

At June 30, 2010 and December 31, 2009, $0.1 million and $1.3 million, respectively, of remediation costs and $13.7 million and $29.2 million, respectively, related to the plugging and abandonment of wells and dismantlement of facilities damaged by Hurricanes Ike and Gustav are included in insurance receivables. We expect that our available cash and cash equivalents, cash flow from operations and the availability under our revolving loan facility will be sufficient to meet any necessary expenditures that may exceed our insurance coverage for damages incurred as a result of Hurricanes Ike and Gustav.

10. Incentive Compensation

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. A summary of share activity pursuant to our share-based payment plans for the six months ended June 30, 2010, is as follows:

	Restricted Shares	Weighted Average Grant Date Price Per Share
Nonvested at December 31, 2009	1,050,506	$ 8.48
Granted	35,000	10.00
Vested	(14,424)	17.81
Forfeited	(59,957)	8.44
Nonvested at June 30, 2010	1,011,125	8.40

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

At June 30, 2010, the composition of our nonvested shares outstanding, by year granted, was as follows:

	Restricted Shares
Employees granted in:	
2009	900,572(1)
2008	51,820(2)
Non-employee directors granted in:	
2010	35,000(3)
2009	21,545(4)
2008	2,188(5)
Total	1,011,125

Vesting is expected to occur as follows, less any forfeited shares:

(1) Equal installments in December 2010 and 2011.
(2) December 2010.
(3) Equal installments in May 2011, 2012 and 2013.
(4) Equal installments in May 2011 and 2012.
(5) May 2011.

At June 30, 2010, there were 1,920,332 shares of common stock available for award under the W&T Offshore, Inc. Amended and Restated Incentive Compensation Plan and 583,891 shares of common stock available for award under the Directors Compensation Plan.

The weighted average grant date fair value of restricted shares granted during the six months ended June 30, 2010 and 2009 was $0.4 million and $10.9 million, respectively. The weighted average fair value of the shares that vested during the six months ended June 30, 2010 and 2009 was $0.1 million and $0.3 million, respectively, based on the closing prices on the dates of vesting.

Total compensation expense under share-based payment arrangements was $1.0 million ($0.9 million, net of tax) and $1.9 million ($1.8 million, net of tax), during the three and six months ended June 30, 2010, respectively. During the three and six months ended June 30, 2009, total compensation expense under share-based payment arrangements was $2.6 million ($0.9 million, net of tax) and $4.2 million ($3.7 million, net of tax), respectively. As of June 30, 2010, there was $4.7 million of total unrecognized share-based compensation expense related to restricted shares issued. Such amount is expected to be recognized in the period beginning July 2010 and ending April 2013.

During the second quarter of 2010, the Company s shareholders approved certain amendments to its long-term incentive compensation plan, resulting in the W&T Offshore, Inc. Amended and Restated Incentive Compensation Plan (the Plan). Among other things, the amendments ensure the Plan s continued compliance with Section 162(m) of the Internal Revenue Code of 1986, as amended. During the three and six months ended June 30, 2010, we expensed $2.2 million and $2.9 million, respectively, pursuant to the Plan related to incentive compensation for the 2010 Plan year.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Earnings (Loss) Per Share

The following table presents the calculation of basic earnings (loss) per common share for the three and six months ended June 30, 2010 and 2009 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss)	$ 27,870	$ (5,974)	$ 70,185	$ (250,552)
Less portion allocated to nonvested shares	379		957	
Net income (loss) allocated to common shares	$ 27,491	$ (5,974)	$ 69,228	$ (250,552)
Weighted average common shares outstanding	73,669	74,642	73,665	75,308
Basic earnings (loss) per common share	$ 0.37	$ (0.08)	$ 0.94	$ (3.33)

Diluted earnings (loss) per common share is the same as basic earnings (loss) per common share because the nonvested shares outstanding during the periods are anti-dilutive.

12. Dividends

During each of the six month periods ended June 30, 2010 and 2009, we paid regular cash dividends of $0.06 per common share. On August 2, 2010, our board of directors declared a cash dividend of $0.04 per common share, payable on September 10, 2010 to shareholders of record on August 20, 2010.

13. Contingencies

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, management believes 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.

14. Supplemental Guarantor Information

Our payment obligations under the Notes and the Credit Agreement (see Note 5) are fully and unconditionally guaranteed by our wholly-owned subsidiary, Energy VI (Guarantor Subsidiary). The guaranty of the Credit Agreement became effective on April 30, 2010. These guarantees are the joint and several obligations of Energy VI. The following unaudited condensed consolidating financial information presents the financial condition, results of operations and cash flows of W&T Offshore, Inc. and Energy VI, together with consolidating adjustments necessary to present the Company s results on a consolidated basis.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Condensed Consolidating Balance Sheet as of June 30, 2010

	Parent Company	Guarantor Subsidiary	Eliminations	Consolidated W&T Offshore, Inc.
	(In thousands, except share data)			
Assets				
Current assets:				
Cash and cash equivalents	$ 72,898	$	$	$ 72,898
Receivables:				
Oil and natural gas sales	57,118	9,599		66,717
Joint interest and other	29,381			29,381
Insurance	13,848			13,848
Income taxes		842	(842)	
Total receivables	100,347	10,441	(842)	109,946
Prepaid expenses and other assets	40,723			40,723
Total current assets	213,968	10,441	(842)	223,567
Property and equipment at cost:				
Oil and natural gas properties and equipment (full cost method, of which $64,605 at June 30, 2010 and $77,301 at December 31, 2009 were excluded from amortization)	4,820,405	122,878		4,943,283
Furniture, fixtures and other	15,248			15,248
Total property and equipment	4,835,653	122,878		4,958,531
Less accumulated depreciation, depletion and amortization	3,879,736	6,064		3,885,800
Net property and equipment	955,917	116,814		1,072,731
Restricted deposits for asset retirement obligations	31,281			31,281
Deferred income taxes	8,776		(2,801)	5,975
Other assets	128,124	5,155	(125,383)	7,896
Total assets	$ 1,338,066	$ 132,410	$ (129,026)	$ 1,341,450
Liabilities and Shareholders Equity				
Current liabilities:				
Accounts payable	$ 52,146	$ 2,895	$	$ 55,041
Undistributed oil and natural gas proceeds	25,027	100		25,127
Asset retirement obligations	99,474			99,474
Accrued liabilities	9,982			9,982
Income taxes	6,897		(842)	6,055
Deferred income taxes	8,921			8,921
Total current liabilities	202,447	2,995	(842)	204,600

Long-term debt	450,000			450,000
Asset retirement obligations, less current portion	238,953	6,386		245,339
Deferred income taxes		2,801	(2,801)	
Other liabilities	20,067		(5,155)	14,912
Commitments and contingencies				
Shareholders equity:				
Common stock, $0.00001 par value; 118,330,000 shares authorized; 77,555,011 issued and 74,685,838 outstanding at June 30, 2010; 77,579,968 issued and 74,710,795 outstanding at December 31, 2009	1			1
Additional paid-in capital	374,993	116,589	(116,589)	374,993
Retained earnings	75,772	3,639	(3,639)	75,772
Treasury stock, at cost	(24,167)			(24,167)
Total shareholders equity	426,599	120,228	(120,228)	426,599
Total liabilities and shareholders equity	$ 1,338,066	$ 132,410	$ (129,026)	$ 1,341,450

W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Condensed Consolidating Statement of Income for the Three Months Ended June 30, 2010

	Parent Company	Guarantor Subsidiary	Eliminations	Consolidated W&T Offshore, Inc.
		(In thousands)		
Revenues	$ 160,511	$ 19,156	$	$ 179,667
Operating costs and expenses:				
Lease operating expenses	46,546	5,911		52,457
Production taxes	283			283
Gathering and transportation	3,512	214		3,726
Depreciation, depletion and amortization	63,831	6,064		69,895
Asset retirement obligation accretion	6,031	96		6,127
General and administrative expenses	13,102	1,273		14,375
Derivative gain	(7,374)			(7,374)
Total costs and expenses	125,931	13,558		139,489
Operating income	34,580	5,598		40,178
Earnings of affiliates	3,639		(3,639)	
Interest expense:				
Incurred	10,914			10,914
Capitalized	(1,329)			(1,329)
Other income	354			354
Income before income tax expense	28,988	5,598	(3,639)	30,947
Income tax expense	1,118	1,959		3,077
Net income	$ 27,870	$ 3,639	$ (3,639)	$ 27,870

Condensed Consolidating Statement of Income for the Six Months Ended June 30, 2010

	Parent Company	Guarantor Subsidiary	Eliminations	Consolidated W&T Offshore, Inc.
		(In thousands)		
Revenues	$ 330,096	$ 19,156	$	$ 349,252
Operating costs and expenses:				

Lease operating expenses	81,912	5,911		87,823
Production taxes	512			512
Gathering and transportation	8,099	214		8,313
Depreciation, depletion and amortization	126,755	6,064		132,819
Asset retirement obligation accretion	12,316	96		12,412
General and administrative expenses	23,481	1,273		24,754
Derivative gain	(13,270)			(13,270)
Total costs and expenses	239,805	13,558		253,363
Operating income	90,291	5,598		95,889
Earnings of affiliates	3,639		(3,639)	
Interest expense:				
Incurred	21,834			21,834
Capitalized	(2,745)			(2,745)
Other income	482			482
Income before income tax expense	75,323			