W&T OFFSHORE INC
Form 10-Q
November 01, 2012
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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 September 30, 2012

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 x 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	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of October 29, 2012, there were 74,370,825 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

	September 30, 2012	December 31, 2011
	(In thousands, except share data)	
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 6,993	$ 4,512
Receivables:		
Oil and natural gas sales	68,230	98,550
Joint interest and other	21,105	25,804
Income tax receivable	14,284	
Total receivables	103,619	124,354
Deferred income taxes current portion		2,007
Restricted cash and cash equivalents	24,026	
Deposit for acquisition	22,800	
Prepaid expenses and other assets	32,455	30,315
Total current assets	189,893	161,188
Property and equipment at cost:		
Oil and natural gas properties and equipment (full cost method, of which $158,585 at September 30, 2012 and $154,516 at December 31, 2011 were excluded from amortization)	6,229,626	5,959,016
Furniture, fixtures and other	20,912	19,500
Total property and equipment	6,250,538	5,978,516
Less accumulated depreciation, depletion and amortization	4,556,548	4,320,410
Net property and equipment	1,693,990	1,658,106
Restricted deposits for asset retirement obligations	28,441	33,462
Other assets	14,328	16,169
Total assets	$ 1,926,652	$ 1,868,925
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 104,274	$ 75,871
Undistributed oil and natural gas proceeds	34,660	33,732
Asset retirement obligations	83,545	138,185
Accrued liabilities	32,331	29,705
Income taxes payable	350	10,392
Deferred income taxes current portion	2,945	
Total current liabilities	258,105	287,885
Long-term debt	719,000	717,000

Asset retirement obligations, less current portion	250,704	255,695
Deferred income taxes	98,393	58,881
Other liabilities	9,470	4,890
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $0.00001 par value; 20,000,000 shares authorized; 0 issued at September 30, 2012 and December 31, 2011		
Common stock, $0.00001 par value; 118,330,000 shares authorized; 77,242,660 issued and 74,373,487 outstanding at September 30, 2012; and 77,220,706 issued and 74,351,533 outstanding at December 31, 2011	1	1
Additional paid-in capital	396,601	386,920
Retained earnings	218,545	181,820
Treasury stock, at cost	(24,167)	(24,167)
Total shareholders equity	590,980	544,574
Total liabilities and shareholders equity	$ 1,926,652	$ 1,868,925

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share data) (Unaudited)			
Revenues	$ 185,946	$ 245,371	$ 637,345	$ 709,148
Operating costs and expenses:				
Lease operating expenses	53,411	58,899	170,349	159,901
Production taxes	1,353	1,050	4,174	2,183
Gathering and transportation	2,810	4,853	11,140	13,203
Depreciation, depletion, amortization and accretion	77,462	84,455	251,894	241,917
General and administrative expenses	18,691	18,104	62,793	54,235
Derivative (gain) loss	24,659	(17,323)	14,421	(10,815)
Total costs and expenses	178,386	150,038	514,771	460,624
Operating income	7,560	95,333	122,574	248,524
Interest expense:				
Incurred	14,791	14,721	43,409	36,913
Capitalized	(3,383)	(3,163)	(9,899)	(6,654)
Loss on extinguishment of debt		2,031		22,694
Other income	202	6	210	22
Income (loss) before income tax expense	(3,646)	81,750	89,274	195,593
Income tax expense (benefit)	(2,175)	28,822	33,959	68,841
Net income (loss)	$ (1,471)	$ 52,928	$ 55,315	$ 126,752
Basic and diluted earnings (loss) per common share	$ (0.02)	$ 0.70	$ 0.73	$ 1.68
Dividends declared per common share	$ 0.08	$ 0.04	$ 0.24	$ 0.12

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 Outstanding Shares	Common Stock Outstanding Value	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Value	Total Shareholders Equity
				(In thousands) (Unaudited)			
Balances at December 31, 2011	74,352	$ 1	$ 386,920	$ 181,820	2,869	$ (24,167)	$ 544,574
Cash dividends				(17,848)			(17,848)
Share-based compensation	21		9,137				9,137
Other			544	(742)			(198)
Net income				55,315			55,315
Balances at September 30, 2012	74,373	$ 1	$ 396,601	$ 218,545	2,869	$ (24,167)	$ 590,980

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2012	2011
	(In thousands) (Unaudited)	
Operating activities:		
Net income	$ 55,315	$ 126,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	251,894	241,917
Amortization of debt issuance costs	2,046	1,401
Loss on extinguishment of debt		22,694
Share-based compensation	9,137	6,437
Derivative (gain) loss	14,421	(10,815)
Cash payments on derivative settlements	(6,960)	(9,239)
Deferred income taxes	44,465	59,442
Changes in operating assets and liabilities:		
Oil and natural gas receivables	30,320	(2,913)
Joint interest and other receivables	3,935	7,465
Insurance receivables	500	18,971
Income taxes	(24,327)	(15,894)
Prepaid expenses and other assets	670	(22,601)
Asset retirement obligations	(63,150)	(51,349)
Accounts payable and accrued liabilities	32,311	23,892
Other liabilities	912	(109)
Net cash provided by operating activities	351,489	396,051
Investing activities:		
Acquisitions of property interests in oil and natural gas properties		(434,582)
Investment in oil and natural gas properties and equipment	(312,372)	(185,222)
Proceeds from sales of oil and natural gas properties and equipment	30,453	15
Change in restricted cash	(24,026)	
Deposit for acquisition	(22,800)	
Purchases of furniture, fixtures and other	(2,125)	(318)
Net cash used in investing activities	(330,870)	(620,107)
Financing activities:		
Issuance of 8.50% Senior Notes		600,000
Repurchase of 8.25% Senior Notes		(450,000)
Borrowings of long-term debt revolving bank credit facility	316,000	512,000
Repayments of long-term debt revolving bank credit facility	(314,000)	(418,000)
Repurchase premium and debt issuance costs	(2,081)	(31,997)
Dividends to shareholders	(17,848)	(8,936)
Other	(209)	
Net cash (used in) provided by financing activities	(18,138)	203,067
Increase (decrease) in cash and cash equivalents	2,481	(20,989)
Cash and cash equivalents, beginning of period	4,512	28,655

Cash and cash equivalents, end of period	$	6,993	$	7,666

See Notes to Condensed Consolidated Financial Statements.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Operations. W&T Offshore, Inc. and subsidiaries, referred to herein as W&T, we 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 acquisition, exploration and development of oil and natural gas properties.

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 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.

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, 2011.

Reclassifications. Certain reclassifications have been made to the 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.

2. Acquisitions and Divestitures

2012 Acquisitions. See Note 13 for information on an acquisition completed subsequent to September 30, 2012.

2012 Divestitures. On May 15, 2012, we sold our 40%, non-operating working interest in the South Timbalier 41 field located in the Gulf of Mexico for $30.5 million, net, with an effective date of April 1, 2012. 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 could be executed. Funds remaining from this sale to be used for replacement purchases are reported in current assets as restricted cash and cash equivalents on the balance sheet as of September 30, 2012. In connection with this sale, we reversed $4.0 million of asset retirement obligation (ARO).

2011 Acquisitions. On May 11, 2011, we completed the acquisition of approximately 24,500 gross acres (21,900 net acres) of oil and gas leasehold interests in the West Texas Permian Basin from Opal Resources LLC and Opal Resources Operating Company LLC (collectively, Opal) and, in 2011, we acquired minor amounts of undeveloped leasehold acreage in the related geography from another third party (collectively, with the properties acquired from Opal, the Yellow Rose Properties). The acquisitions were funded from cash on hand and borrowings under our revolving bank credit facility.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents the purchase price allocation for the acquisitions of the Yellow Rose Properties (in thousands):

Oil and natural gas properties and equipment	$ 396,902
Asset retirement obligations non-current	(382)
Long-term liability	(2,143)
Total cash paid	$ 394,377

On August 10, 2011, we completed the acquisition from Shell Offshore Inc. (Shell) of its 64.3% interest in the Fairway Field along with a like interest in the associated Yellowhammer gas treatment plant (collectively, the Fairway Properties). During the nine months ended September 30, 2012, the purchase price was reduced by $2.7 million. The purchase price is subject to further post-effective date adjustments and final settlement is expected to occur in the first half of 2013. The acquisition was funded from borrowings under our revolving bank credit facility.

The following table presents the purchase price allocation for the acquisition of the Fairway Properties (in thousands):

Oil and natural gas properties and equipment	$ 47,993
Asset retirement obligations non-current	(7,812)
Total cash paid	$ 40,181

For the three months ended September 30, 2011, the Yellow Rose Properties and the Fairway Properties accounted for $21.6 million of revenue, $8.8 million of direct operating expenses, $7.2 million of depreciation, depletion, amortization and accretion (DD&A) and $2.0 million of income taxes, resulting in $3.6 million of net income. For the nine months ended September 30, 2011, the Yellow Rose Properties and the Fairway Properties accounted for $32.8 million of revenue, $10.7 million of direct operating expenses, $9.6 million of DD&A and $4.4 million of income taxes, resulting in $8.1 million of net income. Such amounts are for the period from each respective close date to September 30, 2011. The net income attributable to these properties does not reflect certain expenses, such as general and administrative expenses 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 Yellow Rose Properties and the Fairway Properties are not recorded in a separate entity for tax purposes; therefore, income tax was estimated using the federal statutory tax rate. Expenses associated with acquisition activities and transition activities related to these acquisitions for the three and nine months ended September 30, 2011 were $0.8 million and $1.4 million, respectively, and are included in general and administrative expenses.

Pro Forma Financial Information

Pro forma financial information has been prepared due to the Yellow Rose Properties being significant. The Fairway Properties acquisition, which was not significant, was combined with the Yellow Rose Properties to disclose the effect of both acquisitions. The unaudited pro forma financial information was computed as if these two acquisitions had been completed on January 1, 2010. The historical financial information is derived from the unaudited historical consolidated financial statements of W&T and the unaudited historical statements of the sellers.

W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The pro forma adjustments were based on estimates by management and information believed to be directly related to the purchase of the Yellow Rose Properties and the Fairway Properties. The pro forma financial information is not necessarily indicative of the results of operations had the acquisitions occurred on January 1, 2010. If the transactions 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 the sellers, realized sales prices may have been different and costs of operating the properties may have been different. The following table presents a summary of our pro forma condensed combined statements of income for the three and nine months ended September 30, 2011 (in thousands except earnings per share):

	Three Months Ended, September 30, 2011	Nine Months Ended, September 30, 2011
Revenue	$ 250,257	$ 761,531
Net income	56,207	139,134
Basic and diluted earnings per common share	0.74	1.84

For this pro forma financial information, we assumed the transactions were financed with borrowings from the revolving bank credit facility because the cash and cash equivalents balances for the assumed acquisition date was less than the cash and cash equivalents on hand used on the actual closing dates of the two acquisitions. Also, we assumed that the revolving bank credit facility capacity would have been increased due to the increase in reserves.

The following adjustments were made in the preparation of the condensed combined statement of income:

(a) Revenues and direct operating expenses for the Yellow Rose Properties and the Fairway Properties were derived from the historical records of the sellers up to the respective closing dates.

(b) DD&A was estimated using the full-cost method and determined as the incremental DD&A expense due to adding the Yellow Rose Properties and Fairway Properties costs, reserves and production into the computation. The purchase price allocation included $82.6 million allocated to the pool of unevaluated properties for oil and gas interests. Accordingly, no DD&A expense was estimated for the unevaluated properties.

(c) Asset retirement obligations and related accretion were estimated by W&T management.

(d) Incremental transaction expenses related to the acquisitions for the three and nine months ended September 30, 2011 were $0.8 million and $1.4 million, respectively, and were assumed to be funded from cash on hand.

(e) Interest expense was computed using interest rates that were in effect during the applicable time period and we assumed that six-month LIBOR borrowings were made as allowed under the revolving bank credit facility. The assumed interest rates ranged from 3.1% to 3.5%. A reduction in the revolving bank credit facility commitment fee related to the assumed borrowings was netted against the computed incremental interest expense.

(f) Incremental capitalized interest was computed for the addition to the pool of unevaluated properties and the capitalization interest rate was adjusted for the assumed borrowings.

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

2011 Divestitures. There were no material divestitures completed during the nine months ended September 30, 2011.

3. Hurricane Remediation and Insurance Claims

During the third quarter of 2008, Hurricane Ike caused substantial property damage and we continue to incur costs and submit claims to our insurance underwriters related to repairing such damage. Our insurance policies in effect on the occurrence date of Hurricane Ike had a retention requirement of $10.0 million per occurrence, which has been satisfied, and coverage policy limits of $150.0 million for property damage due to named windstorms (excluding damage at certain facilities) and $250.0 million for, among other things, removal of wreckage if mandated by any governmental authority.

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, which arises when our insurance underwriters adjuster

W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

reviews and approves such costs for payment by the underwriters. Claims that have been processed in this manner have customarily been paid on a timely basis. See Note 4 for additional information about the impact of hurricane related items on our ARO.

From the third quarter of 2008 through September 30, 2012, we have received $140.0 million from our insurance underwriters related to Hurricane Ike. To the extent additional remediation costs or plug and abandonment costs are incurred that are not covered by insurance, we expect that our available cash and cash equivalents, cash flow from operations and the availability under our revolving bank credit facility will be sufficient to meet necessary expenditures that may exceed our insurance coverage for damages incurred as a result of Hurricane Ike.

4. Asset Retirement Obligations

Our ARO 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 the changes to our ARO since December 31, 2011 is as follows (in thousands):

Balance, December 31, 2011	$ 393,880
Liabilities settled	(63,150)
Accretion of discount	15,043
Disposition of properties	(3,993)
Liabilities incurred	486
Revisions of estimated liabilities due to Hurricane Ike (1)	(29,571)
Revisions of estimated liabilities all other (2)	21,554
Balance, September 30, 2012	334,249
Less current portion	83,545
Long-term	$ 250,704

(1) During the nine months ended September 30, 2012, our recommended remediation plan for one of the hurricane damaged platforms and its associated wells was approved by all required parties. The approved plan, which included remediating the damaged platform as a reef in place, was responsible for most of the reduction of the estimated costs.

(2) The majority of the increase is attributable to properties that we do not operate.

5. 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 oil and natural gas and interest rate risk from floating interest rates on our revolving bank credit facility. We do not enter into derivative instruments for speculative trading purposes. Our derivative instruments currently consist of crude oil swap and option contracts. 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 do not currently anticipate that any of our derivative counterparties will be unable 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. Our derivative agreements allow for netting of derivative gains and losses upon settlement. 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.

We account for derivative contracts in accordance with GAAP, which requires each derivative to be recorded on the balance sheet as an asset or a liability at its fair value. We have elected not to designate our commodity derivatives as hedging instruments, therefore, all changes in the fair value of derivative contracts are recognized currently in earnings. For additional information about fair value measurements, refer to Note 7.

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Commodity Derivatives. We have entered into commodity option 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 nine months ended September 30, 2012 and 2011, our derivative contracts consisted entirely of crude oil contracts. The zero cost collars are priced off the West Texas Intermediate (WTI) crude oil price quoted on the New York Mercantile Exchange, known as NYMEX, and the swaps are priced off the Brent crude oil price quoted on the IntercontinentalExchange, known as ICE. Although our Gulf of Mexico crude oil is based off the WTI crude oil price plus a premium, the realized prices received for the types of crude oil 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, we entered into swap oil contracts 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 September 30, 2012, our open commodity derivative contracts were as follows:

Zero Cost Collars Oil (NYMEX)

Termination Period		Notional Quantity (Bbls)	Weighted Average Contract Price Floor	Weighted Average Contract Price Ceiling	Fair Value Liability (in thousands)
2012:	4th quarter	251,000	$ 75.00	$ 98.99	$ 345

Swaps Oil (ICE)

Termination Period		Notional Quantity (Bbls)	Weighted Average Contract Price	Fair Value Liability (in thousands)
2012:	4th quarter	257,600	$ 107.28	$ 977
2013:	1st quarter	351,000	101.97	2,501
	2nd quarter	336,700	101.97	1,862
	3rd quarter	312,800	101.98	1,265
	4th quarter	294,400	101.98	805
2014:	1st quarter	180,000	97.38	1,073
	2nd quarter	172,900	97.38	807
	3rd quarter	165,600	97.38	573
	4th quarter	156,400	97.37	365
		2,227,400	$ 101.19	$ 10,228

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

	September 30, 2012	December 31, 2011
Prepaid and other assets	$	$ 2,341
Other assets		1,746
Accrued liabilities	6,950	7,199
Other liabilities	3,623	

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W&T OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Derivative (gain) loss:				
Realized	$ 875	$ 917	$ 6,960	$ 9,239
Unrealized	23,784	(18,240)	7,461	(20,054)
Total	$ 24,659	$ (17,323)	$ 14,421	$ (10,815)

6. Long-Term Debt

At September 30, 2012 and December 31, 2011, 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 $600.0 million and 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 8.6%. We are subject to various financial and other covenants under the indenture governing the 8.50% Senior Notes and we were in compliance with those covenants as of September 30, 2012.

See Note 13 for information on additional senior notes issued subsequent to September 30, 2012.

The Fourth Amended and Restated Credit Agreement, as amended, (the Credit Agreement) governs our revolving bank credit facility and terminates on May 5, 2015. 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.

On May 7, 2012, we executed the First Amendment to the Fourth Amended and Restated Credit Agreement (the First Amendment), which, among other things, increased the number of participating lenders, increased the borrowing base from $575.0 million to $650.0 million and added a provision permitting the Company to maintain security interests in favor of any hedging counterparties that cease to be lenders under the Company s revolving bank credit facility.

See Note 13 for information on an additional amendment to the Credit Agreement executed subsequent to September 30, 2012.

At September 30, 2012 and December 31, 2011, we had $119.0 million and $117.0 million, respectively, of loans outstanding and $0.6 million and $0.4 million, respectively, of letters of credit outstanding under the revolving bank credit facility. The outstanding balance under the revolving bank credit facility was classified as long-term at the carrying value. The estimated annual effective interest rate was 4.8% for borrowings under the revolving bank credit facility for the nine months ended September 30, 2012. The estimated annual effective interest rate includes amortization of debt issuance costs and excludes commitment fees and other costs. As of September 30, 2012, our borrowing base was $650.0 million and our borrowing capacity availability was $530.4 million.

Under the Credit Agreement, we are subject to two financial covenants calculated as of the last day of each fiscal quarter, comprised of 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 September 30, 2012.